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SURVEYS OF CONSUMER ATTITUDES

MONITORING ECONOMIC CHANGE PROGRAM

SURVEY RESEARCH CENTER
UNIVERSITY OF MICHIGAN

Institute for Social Research

THE RV CONSUMER:
CURRENT AND FUTURE PROSPECTS

By

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The analysis is based on a sample of 1,369 households from the June and July 1981 nationally representative monthly Surveys of Consumer Attitudes, conducted by the Survey Research Center at the University of Michigan. This survey was commissioned by the Recreation Vehicle Industry Association, Marketing Analysis Committee. John Agno, the Chairman of this Committee, and Mac Bryan, the RVIA Staff Marketing Administrator, provided the incentive and guidance for this survey.

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Introduction

What are the prospects for consumer demand for recreational vehicles in the decade ahead? The future cannot be simply and precisely predicted. Nonetheless, understanding the role of the several factors--technological, demographic, economic, and attitudinal--which may influence future developments helps to provide necessary guidance for planning and development. This report focuses on future trends in consumer attitudes and preferences.

Three broad areas were selected for study, the first of which focused on the general attitudes and opinions of the American public. The long-term strength of the RV market depends on the extent to which American consumers engage in and spend money on activities for which recreational vehicles can be used. Has camping gained or lost appeal through competition from other types of recreational activities or because of cost or congestion? Do Americans place a high value on family camping, even if they do not personally own an RV nor even like to camp? Apart from camping, will the use of RVs expand in the broader vacation and travel markets? The second area of investigation focused directly on the size of the current and potential RV market. The demographic characteristics of each market subgroup were identified. The third general area sought even greater detail on consumer attitudes toward specific changes in product designs made necessary by rising gasoline prices and downsized tow vehicles. Attitudes toward interior space, fuel efficiency, and initial costs were investigated.

The results of this analysis can be summarized briefly as follows. Most Americans hold positive attitudes toward the recreational activities served by the RV industry, and most thought that RV products gave as much or more value for the money compared with other expenditures. One-in-ten households owned an RV in 1981, and using a broad definition of the potential market, an additional three-in-ten consumers indicated an interest in the future use of an RV. Although a small number of the potential customers can actually be expected to purchase an RV, the widespread interest in RVs demonstrates the underlying attraction and appeal of these products to the American public. Importantly, a significant portion of the potential demand is in the rental market. Finally, most consumers who expressed an interest in the RV market were also receptive to product changes to achieve downsized fuel efficient vehicles. Of course potential demand will not automatically result in actual sales, but the prospects for growth in RV demand in the decade ahead will be enhanced by favorable attitudes and consumer receptivity.

Public Attitudes

General attitudes held by the American public toward the RV market are favorable: Camping and outdoor recreation at state and national parks is frequently the preferred vacation for American families; the vast majority of consumers are familiar with RV products; and about half of all consumers think that RV products give as much or more value for the money.

How many Americans prefer to camp compared with other types of vacations? Because vacation trips to resort cities are similar in popularity to camping at a state or national park but much different in nature, respondents were asked whether they prefer to spend their vacation at a resort city or camping. The two choices represent broad differences in consumer preferences for vacation and recreational travel, and account for most vacations taken by Americans. The data indicate a slight overall preference toward camping as the preferred vacation. Opinion was nearly evenly divided, with 47 percent who preferred to camp and 41 percent who preferred a vacation trip to a resort city (Table 1). After asking about their overall opinion, respondents were asked to explain in their own words why they preferred the one type of vacation to the other. The reasons most often given for preferring to camp were being outdoors to enjoy the scenery and nature (58 percent), for a change in pace from normal routines (42 percent), and to enjoy the experience of living outdoors (19 percent). Among respondents who favored camping, 18 percent mentioned that one reason for their preference was that it was less expensive. In contrast, respondents who preferred resort vacations frequently mentioned that they liked the extra services and facilities of vacation resorts (30 percent), and the range of activities available in the surrounding areas (33 percent). Among those who preferred a resort city, 48 percent said they did not like to camp or to participate in outdoor recreation at state or national parks, and another 10 percent mentioned family, age, or health-related reasons for not camping--overall these reasons represent about one-in-four American households. Very few mentioned the lack of equipment as a deciding factor in preferring resort cities (2 percent); respondents only slightly more frequently cited crowded parks when explaining their preference for resort cities (3 percent).

Apart from personal preferences in vacations, family camping receives strong public approval and support. Because it represents a socially desirable activity, the questionnaire item was worded in an extreme manner, and asked whether camping was the best type of vacation a family could take, not just a good or typical vacation. (The word "best" was emphasized by each interviewer when asking the question.) It is important to note that respondents were not asked whether camping was best for their family, but instead, whether camping is a good vacation for families in general. This question thus focuses on the more general attitudes of the American public. The data showed that Americans have very favorable attitudes toward family camping, particularly when considering the strongly worded question. Nearly two-thirds (64 percent) of all respondents agreed or strongly agreed that camping was the best vacation a family could take (Table 2). This substantial majority, however, does not imply that appealing to family values is the only way to attract consumers to the RV market, as further evidence will show. But it does indicate widespread public approval for the activities served by the RV market.

In addition to attitudes toward camping and other consumer preferences served by the RV industry, general attitudes toward RV products were also investigated. Growth in consumer demand depends on perceptions of value, specifically on whether RV products are perceived to provide a good value for the consumer dollar. The majority of respondents said that RVs gave as much or more value for their money (53 percent), while one-third felt that RVs gave less value when compared with other expenditures (Table 2). That the percentage of respondents saying RVs give more value for their money than other products (25 percent) is more than twice as high as the proportion of respondents that now own an RV (10 percent) indicates that RV products are attractive to a much broader market than currently served.

The favorable views on RV product value were accompanied by widespread product recognition. Nine-in-ten American households (including owners) report having been inside an RV (Table 2). This level is very high, and indicates that almost all consumers view RVs as familiar products, even if their actual usage experience is not as widespread. Given the overall perception that RVs are familiar products, the American public may be less likely to seek further information, and thus be more likely to remain unaware of recent product improvements.

Table 3 presents the demographic distributions for the several attitudes and preferences discussed above. Middle-income families are the most likely income group to have positive perceptions of camping, to prefer camping to resorts and to feel that RVs are a good value. Younger people are slightly more likely than other age groups to have these views. People living in the West are much more likely than people living in other regions to have positive perceptions of camping and to prefer camping to resorts. Only in vacation preferences was there a sharp division between households with and without children living at home, with families with children more likely to favor camping.

Camping Behavior

Given the favorable general public attitudes toward the camping lifestyle, identifying the specific subgroups of American households that actually camp is an essential part of measuring the potential market for recreational vehicles. In addition to determining the demographic characteristics and size of the camping population, it is important to consider the strength of attachment people have to the camping lifestyle.

The data indicate that camping trips are taken frequently and that camping begins at an early age (Table 4). Most respondents had taken a camping trip at some time in the past (66 percent) and the median or most typical age the first camping trip took place was at 12.2 years old, with nearly a third that started at age 9 or earlier. Very few respondents began camping when they were older than 30 (12 percent, Table 4). Fully 84 percent of respondents who were 25 or younger have camped, falling to 46 percent among respondents age 64 or older. Respondents living in the West were the most likely to have camped (86 percent), while those living in the South were the least likely to have camped (53 percent).

Respondents were also asked whether they had recently taken a camping trip. Among all respondents, 57 percent had camped during the last three years, with a median of 3.5 camping trips (Table 5). Comparing this result with the observation that 66 percent of all respondents had camped at least once in the past reveals that most people who have camped in the past have also done so recently.

Respondents who had camped recently were asked why they enjoy camping. Being outdoors and enjoying nature was the reason most often given (64 percent). Respondents who did not camp during the past three years were asked why they had not camped (Table 5). These respondents most often replied that they simply did not like to camp (47 percent); only 8 percent of the responses referred to costs, and 14 percent mentioned the lack of equipment or facilities. Family reasons (most often "no one to camp with") as well as age and health-related reasons were given by 21 percent of those who had not recently camped, but had camped at some time in the past.

More than four-in-ten households (44 percent) said they expect to take at least one camping trip during the next three years. The median number of expected camping trips was 4.5, higher than the median number taken during the past three years (Table 6). When past camping experience and future camping intentions were combined, it was found that about one-third of all respondents who have recently camped also plan to do so again the near future. Only 4 percent have camped in the past but do not plan to do so in the future. The very small number of families that have camped recently but do not plan to camp again signifies a strong attachment to the camping lifestyle.

The demographic stratification for recent camping experience and future camping intentions shows that respondents who are frequent campers usually have middle incomes, are younger, live in the West, and have one or more children (see Charts 1 to 4). Fully 80 percent of respondents younger than 25, and 60 percent of respondents living in the West plan to camp in the near future (Table 7). The percentage of respondents that have camped at some time but not in the recent past, and the proportion that do not plan to camp in the future both increase with age.

The Size of the RV Market

What is the current size and the future potential of the RV market? American families can be subdivided into three types of households: a) those that currently own an RV, b) households that express an active interest in the purchase, rental, or use of an RV, but do not currently own an RV, and c) those households which neither currently own nor intend to purchase or use an RV in the future. Although current owners represent a prime market, not all current owners can be expected to remain active purchasers in the future. Similarly, not all people that say they plan to buy or rent an RV actually do, and some people that thought they would never be interested in an RV do purchase or rent one at some later date. These definitions of market segments thus should not be considered absolute, but only as approximations of the relative size of each market segment.

In 1981, one-in-ten American households owned an RV (see Table 8). The types of RVs most frequently owned were motorhomes and vans (4 percent), travel trailers (3 percent), followed by slide-in truck campers (2 percent), and folding campers (1 percent). Although these proportions are small, a 10 percent ownership rate represents about 8 million households--a large market by any standard.

Potential RV customers, those respondents that expressed an active interest in the purchase, rental, or use of an RV, amount to 30 percent of all households (Table 8). To be sure, only a small part of the potential

CHART 1

CAMPING INTENTIONS BY REGION

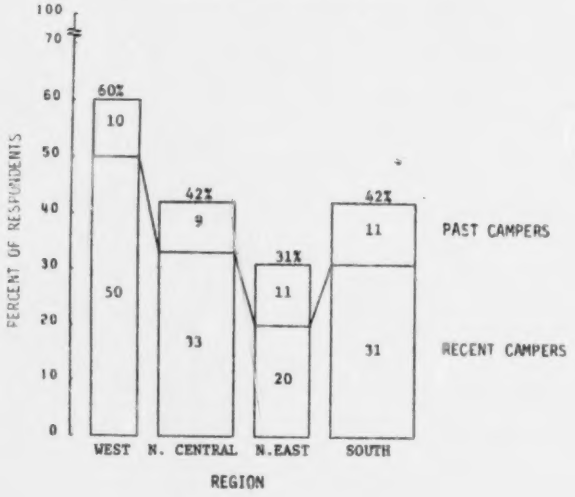


CHART 2

CAMPING INTENTIONS BY INCOME

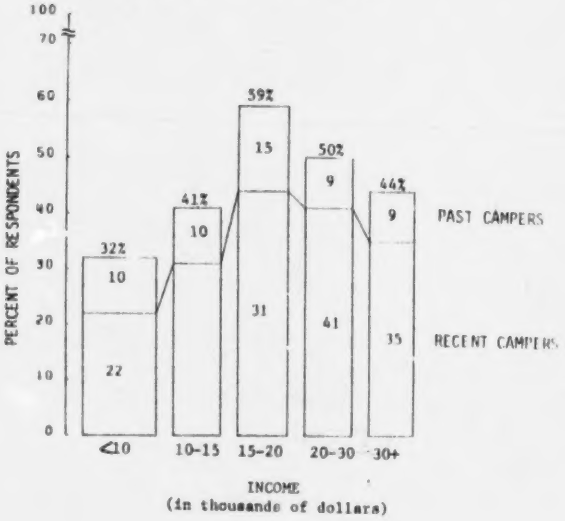


CHART 3

CAMPING INTENTIONS BY NUMBER OF CHILDREN

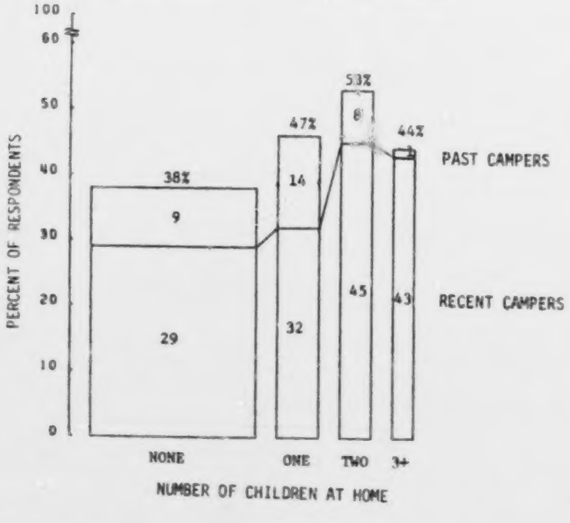
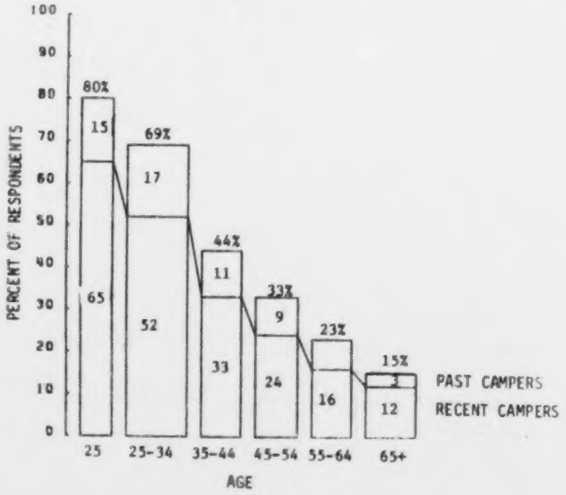


CHART 4

CAMPING INTENTIONS BY AGE



market entrants intend to buy an RV in the near term (5 percent rate chances even or better). Most of the potential market entrants are attracted to RV rentals, at least in the near term. Overall, four-in-ten households can be considered either current or potential RV customers. Although not all potential RV customers can actually be expected to enter the market, if as many as one-third of the potential customers could be drawn into the market, the number of RV owners would double. The remaining six-in-ten households did not own an RV nor plan to buy or rent an RV to use in the future, and therefore were considered to be the least likely to enter the RV market.

In addition to knowing the overall size of the RV market, demographic characteristics can be used to locate current and potential RV consumers. Awareness of characteristics such as age, income, the number of family members and the location of their residence can help guide both product development and marketing plans. In general, respondents in the current and potential recreational vehicle market have high incomes, are young, usually have at least one child, and are more likely to live in the Western region of the country (Table 9). Two demographic characteristics of the RV target market are particularly prominent. First, the ownership and potential use of RVs decline considerably with age. Fully 66 percent of respondents 25 and younger are in the RV market, the proportion falling to 13 percent for those respondents 65 or older (see Chart 5). Second, middle- to high-income households are more likely to be current owners and potential users than lower income households, with nearly one-in-five households earning $30,000 or more currently owning an RV (see Chart 6).

The actual market potential of a particular demographic group, however, is determined by both the frequency of interest and the size of the group, as indicated by the width of the column for each subgroup on Charts 5 through 8. Although consumers living in the West are more likely than those living in

CHART 5

RECREATION VEHICLE TARGET MARKET BY AGE

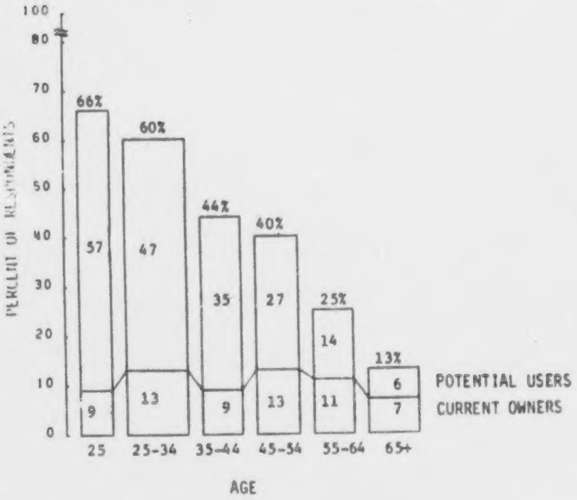


CHART 6

RECREATION VEHICLE TARGET MARKET BY INCOME

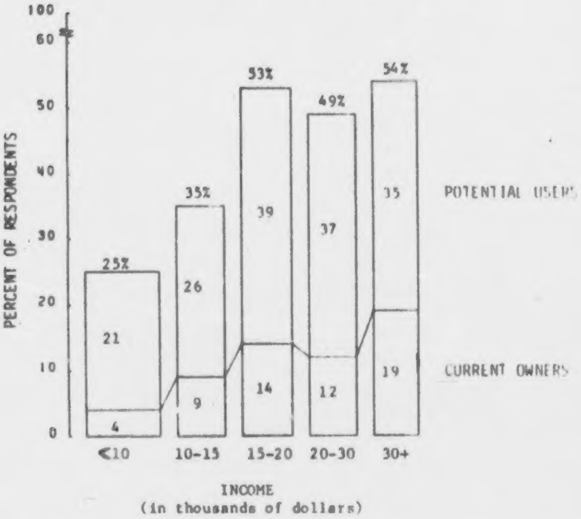


CHART 7

RECREATION VEHICLE TARGET MARKET BY REGION

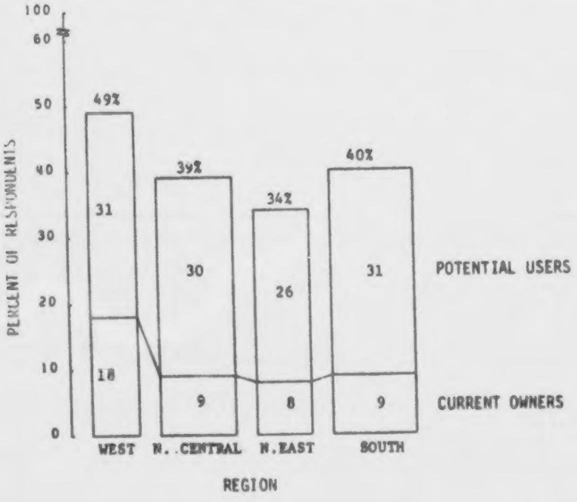
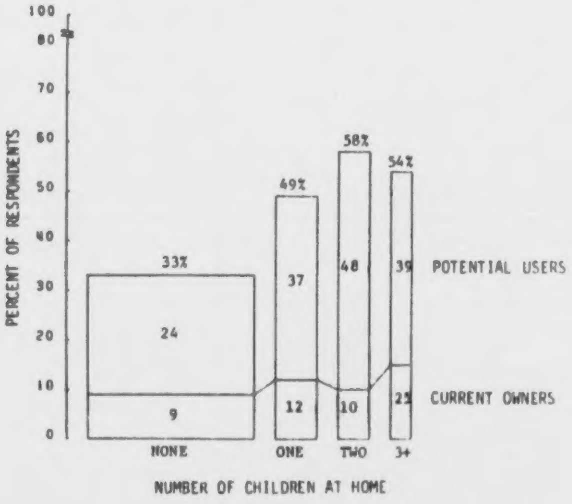


CHART 8

RECREATION VEHICLE MARKET BY NUMBER OF CHILDREN



other regions to be in the RV market, they account for only 18 percent of all households, while the South, having a lower percentage of market households compared to the West, accounts for 32 percent of all households and thus provides a greater potential source of demand for recreational vehicles (see Chart 7). Consumers living in the Northeast, on the other hand, being both a relatively small group and the least likely to be in the RV market, do not have as high a potential for market growth when compared with other regions.

Similarly, respondents having no children under 18 living at home are less likely to be in the RV market (33 percent) than those having young children at home, yet they account for 64 percent of all households (see Chart 8). Due to the substantial size of the gorup, the market potential for households without children is as great as for households with children.

Overall the data indicate that, considering both the frequency of interest within a particular demographic group and the actual size of that group, the largest potential source of demand for RVs can be found in the South, among middle- to high-income, relatively young families. The higher frequency of purchase among households with young children at home is offset by the greater number of households without children living at home, with the net effect being that the two groups have roughly the same market potential.

Buying and Renting

All respondents were asked whether they thought it would be better to buy a new or a used RV, or whether it would be better to rent. Two-thirds of all households thought it would be better to buy a used RV rather than a new unit. Among current owners, the proportion that favored the purchase of used RVs was the highest of any of the market groups--82 percent thought it was better to buy used. In fact, consumers that expressed an interest in the RV market were also the most likely to favor buying used rather than new units (Table 10). When asked to explain why they thought used vehicles were the better buy, the most frequent response was that new vehicles were too expensive. Importantly, 30 percent of the RV owners mentioned the lower depreciation costs of used RVs--twice as frequently as nonowners. About one-fourth of those who favored used vehicles mentioned the availability of good buys of older models, and a similar number mentioned the availability of good buys on used RVs. In contrast, respondents who favored buying new rather than used RVs referred to the poor condition of many used RVs, that the required repairs on used units are expensive, and that the used RV lacks guarantees. Interestingly, potential rather than current owners more frequently thought new vehicles were the better buy because of the higher resale value when the RV was eventually sold.

When asked whether it would be better to buy or rent an RV, nearly equal numbers of consumers favored buying as renting. Among owners, the balance of opinion tilted toward buying (47 percent) rather than renting (43 percent). The opposite was true among potential users: renting was favored by 47 percent compared with 43 percent that favored buying (Table 11). When asked to explain their views, those that preferred to buy most frequently said that they thought that it was more economical. Families that favored buying also more frequently mentioned that owning their own unit made it much more convenient to use. In contrast, respondents who favored renting cited the cost advantages--including initial purchase price as well as upkeep, maintenance, depreciation, and insurance costs. Importantly, 57 percent of the potential users stated that they favored renting over buying because they would not use the RV enough to justify its purchase.

Both current and potential RV users were asked about how they typically use or how they would use an RV in the future. Among owners, 55 percent reported that they used their RV more for camping and outdoor recreation, while 30 percent said they use their RV more to avoid motels and restaurants when traveling (Table 12). In sharp contrast, 54 percent of the potential RV users said they would use the RV more to avoid motels and restaurants, while 35 percent thought they would use it for camping more frequently. Consequently, a significant difference between current and potential market entrants is that current RV owners are much more attracted to camping-related recreation, while potential users place greater emphasis on other uses as well as convenience when traveling.

The purchase and rental markets for RVs are distinctive, but not completely independent of each other. Some consumers that are now interested in renting an RV may at some later date purchase an RV. (Current owners may also be interested in an RV rental on occasion.) When current owners were asked whether they had rented an RV before they purchased their first RV, over one-in-five households said that they had rented before they had purchased (Table 12). These data indicate that the rental market provides a significant source of future growth in RV sales, with the actual experience of using an RV transforming some consumers from renters into purchasers.

Product Preferences

Are current and potential RV consumers willing to buy smaller, lighter, and more fuel-efficient RVs in response to increases in the price of gasoline as well as decreases in the size of tow vehicles, or will consumers initially resist downsizing, and prefer to use the traditional RV less (or even not at all) rather than using a smaller vehicle? The appropriate supply mix of large and downsized RVs depends in part on the proportion of consumers that prefer better fuel efficiency to interior space. To investigate these consumer preferences, both current owners and potential market entrants were asked questions concerning the trade-off between price and interior room versus fuel efficiency, the amount of length they would be willing to trade for better fuel efficiency, and what areas or features they were willing to do without to conserve space. Owners were also asked about the preferred size of their next RV. In addition, both owners and potential entrants were asked how gas price increases might affect their use of RVs in the future.

The study found that both current owners and potential entrants preferred better gas mileage to having more interior room, and would rather have better mileage rather than a lower price (Table 13). Twice as many owners and more than three times as many potential market entrants preferred better mileage to lower prices. Owners and potential entrants have generally similar product preferences--about half of each group would trade both interior room and a lower initial price for better fuel efficiency. Even though the majority prefer smaller fuel efficient vehicles, a significant and important minority--one-in-five current owners--still prefer more space to both greater fuel efficiency and a lower price.

To measure the extent to which consumers would trade interior space for better fuel efficiency, respondents were asked how much of the exterior length of an RV they would be willing to trade for better gas mileage. Three-fourths of all respondents said they would be willing to size-down by two feet or more (Table 14). RV owners were more willing to make the greatest reduction in footage (six feet for nine MPG) than nonowners.

Where in the interior would consumers prefer to sacrifice space? Although owners have presumably spent much more time in RVs, the areas where they would prefer to give up space were similar to those of potential market entrants (Table 14). When questioned, both current owners and potential entrants most often said they would prefer to give up space in the living area (about 30 percent of both groups). The kitchen area was mentioned nearly as often by about 23 percent of both groups. Although the two groups had similar attitudes about most of the rooms, owners were about three times as likely to suggest cutting space from the bathroom (14 percent) than were potential entrants (5 percent), while potential market entrants were more likely to suggesting cutting storage space (15 percent) than owners (9 percent).

How would consumers react to sharp increases in gasoline prices? Current and potential owners were asked about how their use of RVs would change if gasoline prices increased to $2.50 per gallon over the next several years (Table 15). Of course people cannot predict with certainty how they will react to future events, but their reactions to future sharp price increases will be influenced by their current attitudes and expectations. In reaction to gasoline prices of $2.50 per gallon, the majority of both current owners (54 percent) and potential entrants (64 percent) said they would be less likely to use an RV. Gas price increases would thus affect a higher proportion of potential entrants, while current owners, in contrast, more frequently reported that their use of an RV would not be changed by higher gasoline prices. One-third of the owners and one-fourth of the potential market entrants said their use of RVs would remain unchanged if gas prices rose to $2.50.

Very few current owners mentioned that in response to gas price increases they would buy a smaller, more fuel-efficient RV (6 percent). Among owners who would not buy a smaller RV, 34 percent mentioned space considerations, and an additional 16 percent thought that their current RV was small already. Only 5 percent said that the purchase price for smaller RVs was too high. In a similar question, owners were asked about the preferred size of their next RV purchase. The most frequent response was to buy another RV that was the same size as the one they currently owned (48 percent, Table 15). Only 9 percent would buy a smaller RV, while 24 percent would buy a larger RV--15 percent said they would not buy another RV.

Are these contradictory results? Most consumers are receptive to downsized fuel-efficient RVs, yet few would buy smaller RVs, especially current owners. Consumer decisions involve balancing costs and benefits; they recognize the need for fuel-efficent and lighter vehicles, but want to give up as little space as possible, especially if they have become accustomed to its use. Although lighter and more fuel-efficient RVs will dominate future market trends, larger sized RVs will retain a significant share of the market.

TABLE 1

VACATION PREFERENCES AMONG U.S. HOUSEHOLDS, 1981

Vacation Preference	Percentage Distribution of Households
State or National Park	47%
Resort City	41
Both	1
Neither	3
Don't know	8
Total	100%
Number of cases	1369
Reasons for Preference for Camping at a State or National Park[a]	
Like outdoors, scenery, nature	58%
Change of pace	42
Like camping activities	19
Less expensive	18
Good place for family	7
Easily available	4
Don't like resorts	3
Other	3
Reasons for Preference for Resort City[a]	
Like resort activities	33%
Like resort facilities	30
Don't like camping	32
Don't like outdoors	16
Family reasons, age & health problems	10
Parks too crowded	3
No equipment	2
Other	8

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[a] Figures add to more than 100% due to multiple mentions.

The questions were: "Thinking about different types of vacation trips, would you prefer to go to a resort city, or would you rather go to a state or national park for camping and other outdoor recreation?" and "Why is that?"

TABLE 2

ATTITUDES TOWARDS CAMPING AMONG U.S. HOUSEHOLDS, 1981

Responses to the Statement: "Camping is the best type of vacation a family can take."	Percentage Distribution of Households
Strongly agree	14%
Agree	50
Disagree	24
Strongly disagree	3
Don't know	9
Total	100%
Value of RV Compared to Other Ways People Spend Money	
More value	25%
As much value	28
Less value	32
Don't know	15
Total	100%
Ever Been Inside a Recreational Vehicle	
Yes	90%
No	9
Don't know, no answer	1
	100%

The questions were: "After I read the following statement please tell me whether you strongly agree, agree, disagree, or strongly disagree. Here is the statement: Camping is the best type of vacation a family can take."

Compared with other ways people spend their money, do you think that a recreational vehicle, like a travel trailer or motorhome, gives about as much value for your money, or less value for your money?"

and "Have you ever been inside one of these recreational vehicles?"

TABLE 3

PREFERENCES AND EXPERIENCE WITH CAMPING: DEMOGRAPHIC DISTRIBUTION AMONG U.S. HOUSEHOLDS, 1981

	Percent of U.S. Households that ...			
	Prefer Parks for Camping	Agree Camping is Best Vacation	Say RV's Give As Much or More Value	Have Been Inside an RV
All households	47%	64%	53%	90%
Income				
Less than $10,000	47	62	52	81
$10,000-14,999	51	73	52	94
$15,000-19,999	59	73	66	95
$20,000-29,999	45	62	54	96
$30,000 and over	41	58	53	95
Age				
Younger than 25	67	73	59	98
25-34	59	69	56	93
35-44	49	61	55	92
45-54	40	62	51	91
55-64	35	59	55	83
65 or older	36	65	49	85
Region				
West	62	80	51	94
North Central	46	60	54	92
Northeast	39	59	62	88
South	44	63	49	87
Number of Children				
None	41	65	51	90
One	53	62	60	93
Two	50	61	55	92
Three or more	75	73	59	87

TABLE 4

CAMPING EXPERIENCE AMONG U.S. HOUSEHOLDS, 1981

Ever Taken a Camping Trip	Percentage Distribution of Households
Yes	66%
No	28
Don't know, no answer	6
Total	100%
Number of cases	1369
Age When Started Camping	
Under 5 years	8%
5-9	24
10-14	28
15-19	13
20-29	15
30-39	7
40 and older	5
Total	100%
Median age	12.2

The questions were: "Have you ever taken an overnight camping trip?"
"How old were you when you first went camping?"

TABLE 5

RECENT CAMPING EXPERIENCE AMONG U.S. HOUSEHOLDS, 1981

Number of Camping Trips in Past Three Years	Percentage Distribution of All Households
No camping trips	43%
One or more	57
One	12
Two or three	17
Four to nine	14
Ten or more	14
Total	100%
Median number of camping trips among campers	3.5
Number of cases	1369

Reasons for Enjoying Camping[a]	Percentage Distribution of Households That Have Been Camping
Being outdoors	64%
Outdoor sports	25
Change of pace; relax	24
Peace and quiet	23
Like camping	10
Chance to socialize	6
Good for family	5

Reasons for Not Camping[a]	Percentage Distribution of Households That Have Not Been Camping
Don't like camping	47%
Family reasons, age and health problems	21
Too busy	20
Lacks facilities, equipment	14
Cost	8

---

[a] Adds to more than 100% due to multiple mentions.

The questions were: "How many camping trips did you take during the last three years?" "What are the things you enjoy about camping?" and "What are the reasons you haven't gone camping?"

TABLE 6

INTENTIONS FOR CAMPING IN THE NEXT THREE YEARS AMONG U.S. HOUSEHOLDS, 1981

Number of Camping Trips Expected During Next Three Years	Percentage Distribution of Households
None	50%
One	9
Two or three	12
Four to nine	11
Ten or more	12
Don't know, no answer	6
Total	100%
Median number expected among campers	4.5
Three Year Camping Experience	
Camped in past, and intends to camp in future	32%
Did not camp in past, and intends to camp in future	10
Camped in past, and does not intend to camp in future	4
Did not camp in past, and does not intend to camp in future	22
Never camped, does not intend to camp	24
Don't know, no answer	8
Total	100%

The question was: "How many camping trips do you think you will take during the next three years?"

TABLE 7

RECENT CAMPING EXPERIENCE AND INTENTIONS AMONG DEMOGRAPHIC SUBGROUPS, 1981

	Intends to Camp In Future		Does Not Intend to Camp in Future				
	Camped Recently	Did Not Camp Recently	Camped Recently	Did Not Camp Recently	Never Camped	Other	Total
All Households	32%	10%	4%	22%	24%	8%	100%
Income							
Less than $10,000	22	10	3	19	33	13	100%
$10,000-14,999	31	10	5	26	20	8	100%
$15,000-19,999	44	15	1	16	20	4	100%
$20,000-29,999	41	9	5	20	21	4	100%
$30,000 and over	35	9	6	29	18	3	100%
Age							
Younger than 25	65	15	2	6	8	4	100%
25-34	52	17	4	12	10	5	100%
35-44	33	11	7	23	19	7	100%
45-54	24	9	4	29	29	5	100%
55-64	16	7	3	33	35	6	100%
65 or older	12	3	3	28	39	15	100%
Region							
West	50	10	5	21	9	5	100%
North Central	33	9	5	21	25	7	100%
Northeast	20	11	3	22	35	9	100%
South	31	11	3	22	25	8	100%
Number of Children							
None	29	9	4	24	26	8	100%
One	32	14	2	20	25	7	100%
Two	45	8	3	16	18	10	100%
Three or more	43	*	*	34	16	7	100%

TABLE 8

CURRENT AND POTENTIAL RV MARKET, 1981

Recreational Vehicle Market	Percentage Distribution of Households
Total RV Market	40%
Owners	10
Motorhome or van	4
Travel trailer	3
Fifth-wheel	*
Folding camper	1
Slide-in truck camper	2
Potential Users	30
Buyers	5
Renters or users	25
Nonmarket households	60
Total	100%
Number of cases	1369

---

*Less than half of one percent.

The questions were: "Do you (or anyone in your family living there) own a recreational vehicle such as a motorhome, van, camping trailer, or slide-in truck camper?" and "What type of trailer is it--a folding-camping trailer, a travel trailer, or a fifty-wheel trailer?"

"During the next 12 months, what do you think are the chances that you (or anyone else in your family living there) will buy a recreational vehicle, (such as a van, motorhome, camper, or camping trailer)? Would you say you probably will, probably will not, or are the chances about even?"

"Would you consider renting a recreational vehicle such as a van, motorhome, camping trailer, or camper for any purpose in the next year or so?" and "What do you think are the chances that you (and your family living there) would, at some time, use a recreational vehicle for a vacation trip? Would you say you probably will, probably will not, or are the chances about even?"

TABLE 9

RV MARKET SEGMENTS AMONG DEMOGRAPHIC SUBGROUPS, 1981

	RV Market Segments			
	Current Owners	Potential Users	Non-Market Households	Total
All Households	10%	30%	60%	100%
Income				
Less than $10,000	4	21	75	100%
$10,000-14,999	9	26	65	100%
$15,000-19,999	14	39	47	100%
$20,000-29,999	12	37	51	100%
$30,000 and over	19	35	46	100%
Age				
Younger than 25	9	57	34	100%
25-34	13	47	40	100%
35-44	9	35	56	100%
45-54	13	27	60	100%
55-64	11	14	75	100%
65 or older	7	6	87	100%
Region				
West	18	31	51	100%
North Central	9	30	61	100%
Northeast	8	26	66	100%
South	9	31	60	100%
Number of Children				
None	9	24	67	100%
One	12	37	51	100%
Two	10	48	42	100%
Three or more	15	39	46	100%

TABLE 10

ATTITUDES TOWARD PURCHASING A NEW OR USED RV, 1981

Better off Buying New or Used Travel Trailer	All Households	RV Market Segments		
		Owners	Potential Users	Non-market Households
Better to buy new	19%	9%	16%	22%
Pro-con	5	7	4	5
Better to buy used	65	82	78	56
Don't know	11	2	2	17
Total	100%	100%	100%	100%
Number of cases	1369	137	411	821
Reasons Given for Why Better to Buy a New RV[a]				
Used in poor condition/ costly repairs/new RVs have guarantees	72%	88%	65%	74%
Cost of used too high	6	13	12	4
Safety/design/quality	7	4	5	8
Resale value	14	4	24	11
Other	13	13	11	14
Reasons Given for Why Better to Buy a Used RV[a]				
New RV cost too much	45%	64%	48%	44%
Better quality/safer	21	26	26	19
Good buys on used RVs	29	22	24	34
Won't use enough	10	6	13	10
Other	4	7	5	3
Depreciation less	15	30	14	12

---

[a] Figures add to more than 100% due to multiple mentions.

The questions were: "In general, do you think a family of four who goes camping every year would get its money's worth buying a new travel trailer, or would this family be better off financially buying a used travel trailer of the same type?" and "Why do you say so?"

TABLE 11

ATTITUDES TOWARD BUYING OR RENTING AN RV, 1981

Better off Renting or Buying a Travel Trailer	All Households	RV Market Segments Owners	Potential Users	Non-Market Households
Better to buy	38%	47%	43%	35%
Pro-con	5	8	7	4
Better to rent	45	43	47	44
Don't know	12	2	3	17
Total	100%	100%	100%	100%
Reasons Given for Buying[a]				
More economical to buy	65%	72%	63%	63%
More convenient/use more	31	28	33	31
Resale value-rent-out	12	16	12	10
Better quality	10	8	11	10
Other	7	8	9	6
Reasons Given for Renting[a]				
Purchase price too high	21%	33%	23%	19%
Renting less expensive	20	25	17	21
Do not use enough to buy	51	37	57	51
No upkeep or maintenance	22	28	24	20
No depreciation, insurance costs	14	16	14	13
Other	7	6	5	5

---

[a] Figures add to more than 100% due to multiple mentions.

The questions were: "In general, do you think a family of four who goes camping every year would get its money's worth buying a travel trailer, or would this family be better off financially renting the same type of travel trailer?" and "Why do you say so?"

TABLE 12

PREFERRED USE OF RVS AND FIRST TIME RENTALS, 1981

		RV Market Segments	
	Total	Owners	Potential Users
Use RV for Camping or to Avoid Motels & Restaurants			
Use more for camping	40%	55%	35%
Use more to avoid motels and restaurants	48	30	54
Neither; don't know	12	15	11
Total	100%	100%	100%
Number of cases	548	137	411
Rented an RV Before Purchase			
Yes	--	22%	--
No	--	74	--
Don't know, no answer	--	4	--
Total	--	100%	--

The questions were: "Do you use your recreational vehicle more for camping and other outdoor recreation, or do you use it more to avoid motels and restaurants when traveling?" or "If you had the use of a motorhome, do you think you would use it more for camping and other outdoor recreation, or would you use it more to avoid motels and restaurants while traveling?" and "Before you bought your first recreational vehicle, did you ever rent a recreational vehicle?"

TABLE 13

TRADE OFF BETWEEN FUEL EFFICIENCY, INTERIOR ROOM, AND VEHICLES COST, 1981

		RV Market Segments	
	Total	Owners	Potential Users
Cost or Gas Mileage More Important?			
A less expensive RV is more important	23%	31%	20%
Better gas mileage is more important	69	63	70
Don't know	8	6	10
Total	100%	100%	100%
Room or Gas Mileage More Important?			
Interior room is more important	33%	39%	30%
Better gas mileage is more important	59	59	60
Don't know	8	2	10
Total	100%	100%	100%
Combined Preference			
MPG more important than room/cost	49%	46%	51%
MPG and room	18	17	19
MPG and cost	9	12	8
Room/cost more important than MPG	13	20	11
Others	11	5	11
Total	100%	100%	100%

The questions were: "If you (and your family living there) were going to buy a recreational vehicle, like a travel trailer or motorhome, which would be more important to you: finding a less expensive recreational vehicle, or finding one that gets better gas mileage?" and "If you (and your family living there) were going to buy a recreational vehicle, like a travel trailer or motorhome, which would be more important to you: having more interior room, or getting better gas mileage?"

TABLE 14

TRADEOFF BETWEEN LENGTH OF RV AND MILEAGE, 1981

		RV Market Segments	
	Total	Owners	Potential Users
Trade-Off Between Length and Mileage of RV			
Would not trade any length for better mileage	24%	25%	24%
Would trade 2 feet in length for an increase of 3 MPG	26	29	25
Would trade 4 feet in length for an increase of 6 MPG	17	10	19
Would trade 6 feet in length for an increase of 9 MPG	26	34	24
Don't know	7	2	8
Total	100%	100%	100%
Preferred Areas to Give Up Space			
Kitchen/dining	23%	22%	24%
Sleeping	14	11	15
Bathroom	7	14	5
Living	30	32	29
Storage	14	9	15
Other, including combinations	4	6	3
Don't know	8	6	9
Total	100%	100%	100%

The questions were: "Suppose you could get three miles more a gallon if the travel trailer or motorhome were two feet shorter in length. Would you be willing to trade two feet in length to improve gas mileage by three miles a gallon?" "Would you be willing to trade four feet in the length of the travel trailer or motorhome in order to improve gas mileage by six miles a gallon?" "Would you be willing to shorten the travel trailer by six feet if it would improve gas mileage by nine miles a gallon?" "In making recreational vehicles smaller, where in the interior would you prefer to give up space: in the kitchen and dining area, in the sleeping area, in the bathroom, in the living area, in the storage area, or where?" and "Why is that?"

TABLE 15

EFFECT OF GAS PRICE INCREASES ON RV USAGE, 1981

Change in Intended Use of RV if Gas Prices Increase to $2.50 a Gallon in Next Several Years	Total	RV Market Segments	
		Owners	Potential Users
Less likely to use RV	62%	54%	64%
Price change would not affect use of RV	28	33	26
Would buy smaller RV	1	6	--
Don't know	9	7	10
Total	100%	100%	100%
Reasons for Not Buying Smaller RV[a]			
Need or want space and convenience	--	34%	--
RV is small already	--	16	--
Does not want smaller vehicle	--	11	--
Purchase price too high/depreciation	--	5	--
Do not drive current RV much/does not require gas	--	12	--
Other	--	20	--
Owner's Preferred Size of Next RV			
Smaller	--	9%	--
About the same	--	48	--
Larger	--	24	--
Will not buy another RV	--	15	--
Don't know	--	4	--
Total	--	100%	--

---

[a] Figures add to more than 100% due to multiple mentions.

The questions were: "Suppose gasoline prices increase to $2.50 a gallon during the next several years--would you (and your family living there) use your recreational vehicle less, buy a smaller recreational vehicle, or would you continue to use your recreational vehicle as you do now?" and "Is there any particular reason why you would not buy a smaller recreational vehicle than you have now?" and

"Will the next recreational vehicle you buy be smaller than the one you own now, will the next recreational vehicle be larger, or will it be about the same size?"

APPENDIX I

HISTORICAL SERIES

Each month since May 1979 questions concerning attitudes toward buying and renting Rvs have been included in the Surveys of Consumer Attitudes. The questions are worded as follows:

1. "During the next 12 months, what do you think are the chances that you (or anyone else in your family living there) will buy a recreational vehicle, (such as a van, motorhome, camper, or camping trailer)? Would you say you probably will, probably will not, or are the chances about even?"
2. "Would you consider renting a recreational vehicle such as a van, motorhome, camping trailer, or camper for any purpose in the next year or so?" and "What do you think are the chances are you (and your family living there) would, at some time, use a recreational vehicle for a vacation trip? Would you say you probably will, probably will not, or are the chances about even?"

Tables 1 and 2 of this appendix show, to the most current date, the monthly results of these questions. Chart 1 shows a three month moving average of the percent of respondents giving an affirmative or neutral response to the first question and the percent of respondents giving an affirmative response to the second question, indexed with July 1979 being the base survey.

Charts 3 and 4 show the relationship between monthly retail deliveries of RV's and broader attitudinal data collected by the Surveys of Consumer Attitudes. Five questions from the monthly surveys are used to calculate the Index and are worded as follows:

1. "We are interested in how people are getting along financially these days. Would you say that you and your family living there are better off or worse off financially than you were a year ago?"
2. "Now looking ahead--do you think that a year form now you and your family living there will be better off financially, or worse off, or just about the same as now?"
3. "Now turning to business conditions in the country as a whole--do you think that during the next twelve months we'll have good times financially, or bad times, or what?"

4. "Looking ahead, which would you say is more likely--that in the country as a whole we'll have continuous good times during the next five years or so, or that we will have periods of widespread unemployment or depression, or what?"

5. "About the big things people buy for their house--such as furniture, a refrigerator, stove, and things like that. Generally speaking, do you think now is a good time or a bad time to buy major household items?"

To construct the Index, a relative score is calculated for each question by taking the percentage giving favorable or optimistic answers, subtracting the percentage giving unfavorable answers, and adding 100. (This procedure is equivalent to assigning a value of +1 to favorable responses, of 0 to "same" or "don't know" responses, and of -1 to unfavorable answers.) An average is then taken over the five relative scores, and the result is adjusted to the base (February 1966 = 100).

Data for personal future financial situation are calculated from the distribution of responses to the second question. The percentage of respondents who feel they will be better off is subtracted from the percentage who feel they will be worse off and 100 is added.

TABLE A1

POSSIBILITY OF RENTING AN RV IN THE NEXT 12 MONTHS
(Percentage distribution of non-RV Owners)

	Chances of Renting an RV			
Survey	Yes	No	Not Ascertained	Total
May 1979	9.9%	85.3%	4.8%	100%
June 1979	10.8	88.0	1.2	100%
July 1979	12.4	85.3	2.3	100%
August 1979	8.7	88.1	3.2	100%
September 1979	17.0	79.5	3.5	100%
October 1979	13.1	84.4	2.5	100%
November 1979	10.5	85.6	3.9	100%
December 1979	9.7	87.5	2.8	100%
January 1980	14.3	84.9	0.8	100%
February 1980	9.5	87.2	3.3	100%
March 1980	15.7	82.7	1.6	100%
April 1980.	7.8	92.0	0.2	100%
May 1980	10.1	89.6	0.3	100%
June 1980	11.8	87.0	1.2	100%
July 1980	11.2	88.3	0.5	100%
August 1980	16.4	83.4	0.2	100%
September 1980	12.6	86.8	0.6	100%
October 1980	17.9	81.7	0.4	100%
November 1980	15.1	83.7	1.2	100%
December 1980	11.9	87.7	0.4	100%
January 1981	12.0	85.6	2.4	100%
February 1981	15.8	84.2	0.0	100%
March 1981	18.6	81.0	0.4	100%
April 1981	15.3	83.3	1.4	100%
May 1981	13.6	85.7	0.7	100%
June 1981	23.2	73.2	3.6	100%
July 1981	22.2	73.2	4.6	100%
August 1981	12.5	87.2	0.3	100%
September 1981	13.3	84.9	1.7	100%
October 1981	13.5	86.5	0.0	100%
November 1981	12.9	86.4	0.7	100%
December 1981	18.5	81.0	0.5	100%
January 1982	17.4	82.4	0.2	100%
February 1982	18.3	81.2	0.5	100%
March 1982	15.2	84.7	0.1	100%
April 1982	18.3	81.3	0.4	100%

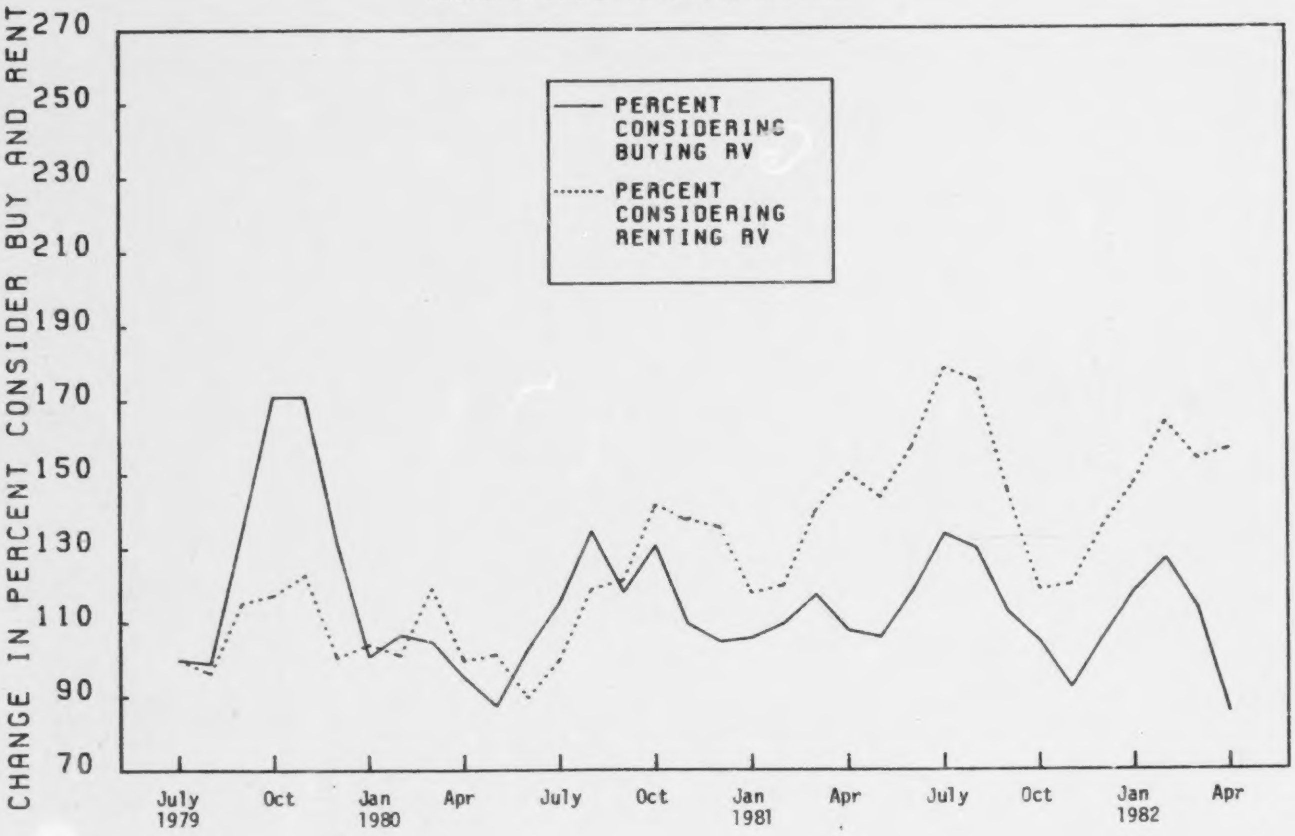
TABLE A2

POSSIBILITY OF BUYING AN RV IN THE NEXT 12 MONTHS
(Percentage distribution of all families)

Survey	Probably Will Buy	Chances Are About Even Will Buy	Probably Will Not Buy	Not Ascer- tained	Total
May 1979	1.0%	2.8%	94.3%	1.9%	100%
June 1979	0.8	2.9	95.9	0.4	100%
July 1979	1.3	1.6	96.9	0.2	100%
August 1979	1.6	2.1	95.7	0.6	100%
September 1979	1.9	5.5	90.8	1.9	100%
October 1979	2.1	4.6	92.3	1.0	100%
November 1979	1.3	2.4	95.6	0.7	100%
December 1979	0.7	2.6	95.6	1.1	100%
January 1980	0.8	2.7	96.0	0.5	100%
February 1980	1.6	2.7	93.5	2.2	100%
March 1980	1.0	2.1	96.8	0.1	100%
April 1980	0.9	1.6	95.9	1.6	100%
May 1980	0.4	3.1	95.4	1.1	100%
June 1980	1.0	3.7	94.6	0.7	100%
July 1980	0.9	2.9	95.8	0.4	100%
August 1980	2.3	3.2	93.0	1.6	100%
September 1980	0.5	2.5	96.5	0.5	100%
October 1980	2.1	3.0	94.7	0.2	100%
November 1980	1.1	2.2	96.1	0.6	100%
December 1980	1.0	1.5	97.5	0.0	100%
January 1981	1.3	3.0	95.7	0.0	100%
February 1981	1.1	3.5	95.2	0.2	100%
March 1981	1.8	1.5	96.6	0.1	100%
April 1981	1.2	2.1	96.4	0.3	100%
May 1981	2.2	2.2	95.6	0.0	100%
June 1981	1.1	3.5	91.5	3.8	100%
July 1981	0.8	4.1	90.1	5.1	100%
August 1981	1.6	2.4	95.7	0.3	100%
September 1981	0.8	2.0	97.0	0.2	100%
October 1981	1.4	2.7	95.9	0.0	100%
November 1981	0.9	1.8	97.3	0.0	100%
December 1981	1.2	3.0	95.6	0.2	100%
January 1982	1.9	3.5	94.4	0.2	100%
February 1982	0.8	2.8	96.4	0.0	100%
March 1982	1.2	1.6	96.9	0.3	100%
April 1982	1.2	1.4	97.4	0.0	100%

CHART A1

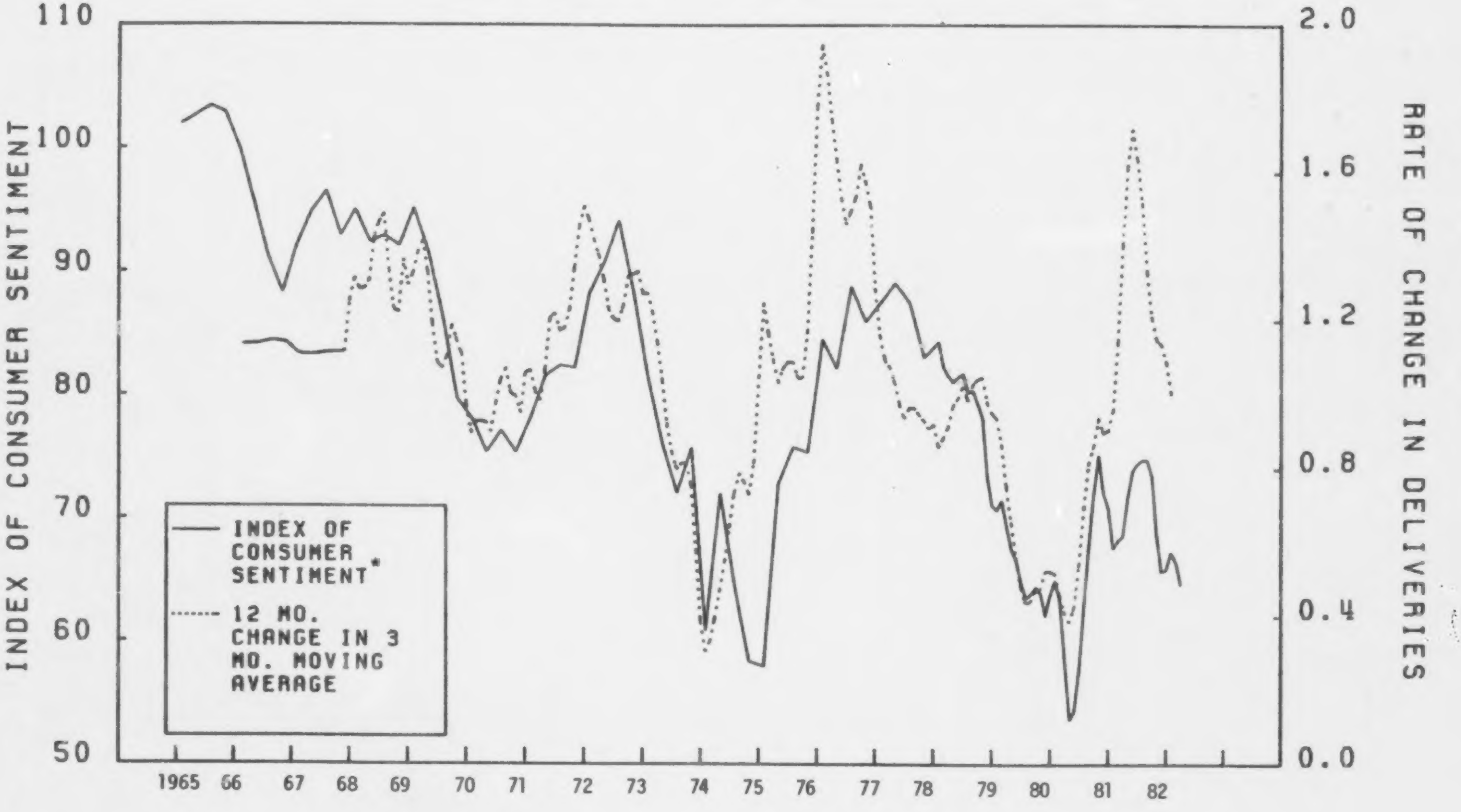
CHANGES IN BUYING AND RENTING INTENTIONS



3-month moving average
July 1979=100

CHART A2

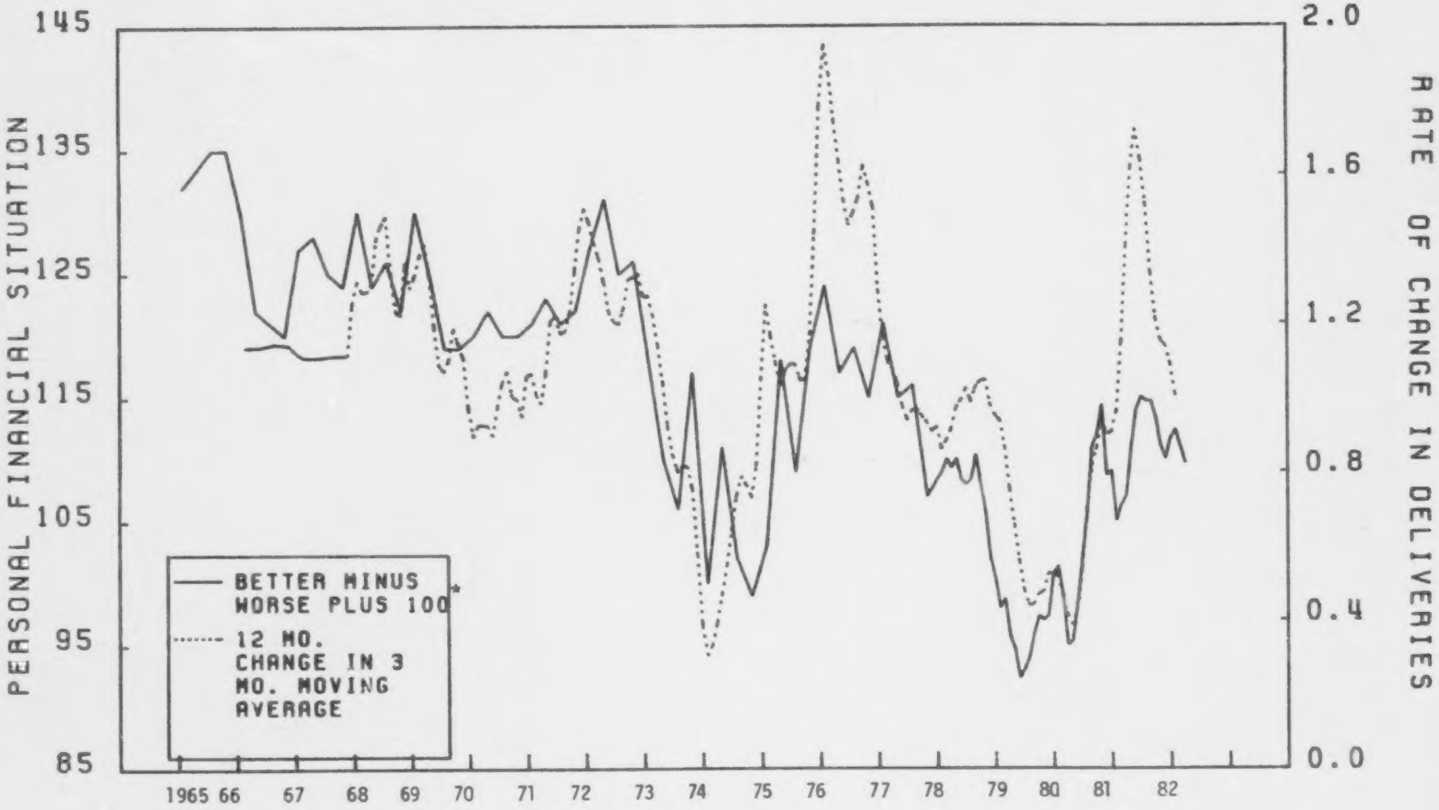
CHANGES IN DELIVERIES AND THE INDEX OF CONSUMER SENTIMENT



*A three-month moving average.

CHART A3

CHANGE IN DELIVERIES AND PERSONAL FINANCIAL SITUATION IN A YEAR



*A three-month moving average.

APPENDIX II

SAMPLE DESIGN

The Survey Research Center conducts an ongoing, nationally representative monthly survey based on telephone interviews with adult men and women living in households in the coterminous United States (48 states and the District of Columbia). The monthly survey,of households, for this study, began in early June 1981 and ended late July, 1981. For each monthly sample, an independent drawing of telephone numbers is made. The respondents chosen in this drawing are reinterviewed in six months. A rotating panel design results, and the total sample for any one survey is normally made up of 55% new respondents, and 45% of the respondents being interviewed for the second time. This design permits the regular measurement of change in the aggregate and also allows the assessment of individual change at six-month intervals.

The national telephone sample designs of the Survey Research Center employ computer routines to randomly generate telephone numbers. A list of all working area codes and central office codes is updated monthly and made available by the Long Lines Division of AT&T. The selection technique involves the random generation of the last four digits in order to identify the sample numbers. The generation of the sample numbers is performed after stratification by geography and size of exchange has been introduced. The size of exchange is measured by the number of area codes-central office codes within the exchange as a proxy for the level of population density. Stratification by these criteria assures sample representation of different regions (see Chart A4), states, and metropolitan size categories. The sample is drawn so that every number in the coterminous United States has an equal chance of being selected.

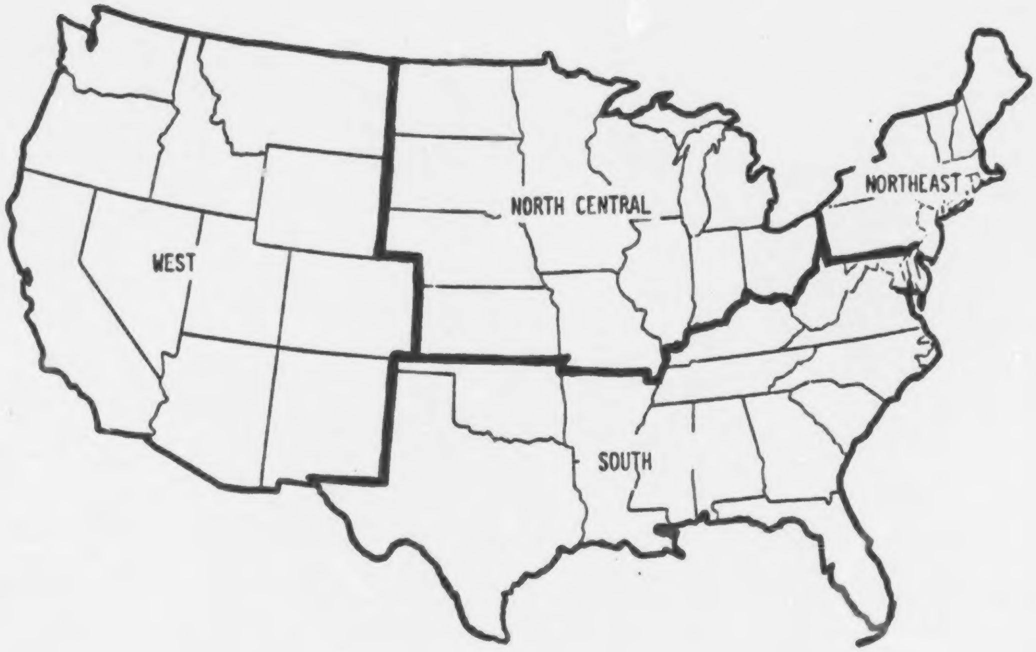
All surveys are subject to sampling error because not all members of the population are interviewed. Telephone interviewing fails to include the approximately 8-9% of the households in the United States that are not telephone subscribers, although the percentage of nonsubscribers is shrinking over time. Current studies of the bias which results from the exclusion of nontelephone subscribers indicate that it is not severe and probably is within the accuracy requirements for most survey research projects. Most results on the total sample for this survey will differ by less than 4 percentage points in either direction from what would have been obtained by using the same method on the entire population, as shown below:

Reported Percentages	Approximate Error for 1,400 Interviews
50	3.2
30 or 70	2.9
20 or 80	2.6
10 or 90	1.9
5 or 45	1.4

Since only one adult per housing unit is selected, the results may need to be weighted by the number of eligible respondents in the household and inversely by the number of separate telephone numbers per household. Additional weights may be introduced to adjust for variations as a result of the incorporation of recontact respondents in the sample.

CHART A4

REGIONAL DIVISIONS OF THE UNITED STATES


WEST
NORTH CENTRAL
NORTHEAST
SOUTH

12/7/82 U7475-Y.14 A

SURVEYS OF CONSUMER ATTITUDES

SPENDING PLANS REMAIN CAUTIOUS: INCOME UNCERTAINTY COUNTERS LOWER INTEREST RATES

BY

Richard T. Curtin

November 1982 [illegible]

MONITORING ECONOMIC CHANGE PROGRAM

SURVEY RESEARCH CENTER
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Sentiment Remains at Low Levels

The most recent evidence from the monthly Surveys of Consumers points to modest overall improvement in consumer attitudes and expectations. In the October 1982 survey, the Index of Consumer Sentiment was 73.4, up from 69.3 one month earlier and 65.4 three months earlier. The recent improvement has been due to interest rate declines. But even with this improvement, because of record levels of unemployment, overall consumer sentiment has remained near low levels (Chart 1).

The current level of consumer sentiment reflects not only a cyclically low level but also a long-term downward trend. Consumer attitudes and expectations have been more pessimistic on average throughout the past 10 years than in the prior two decades. From 1973 through the third quarter of 1982, on average half of all consumers expected bad times financially in the economy as a whole. This proportion stands in sharp contrast to the prior two decades, when half of all respondents typically expected favorable business conditions to prevail. Consumer evaluations of their personal financial situation have also been less favorable on average during the past decade. In the 1950s and 1960s consumers more frequently reported improvement in their personal financial situation, but from 1973 through 1982 consumers more frequently reported that their financial situation had worsened rather than improved. These data indicate that, rather than a source of consumer satisfaction and confidence, the economy since the early 1970s has become a source of discontent and uncertainty.

Unemployment Dominates Consumer Views of Economy

Spreading unemployment has been the dominant concern expressed by consumers in each of the monthly surveys conducted thus far in 1982. Four-in-five respondents in the third quarter 1982 surveys thought that the economy had worsened during the past year, a level which has remained unchanged since the start of 1982. On only a few occasions have these surveys recorded greater agreement among consumers that the economy was in recession, as shown in Chart 2. When respondents were asked to identify the recent economic developments that they had heard and could recall (Chart 3), reports of inflation declined during the past few years only to be replaced by heightened concern with unemployment--as seen from a comparison of Charts 4 and 5. In the third quarter 1982 surveys, 52 percent mentioned hearing about increases in unemployment when asked about news of the economy. This was three times the level that was recorded one year earlier, and the highest level recorded in the last quarter century. Moreover, consumers expected the current high levels of unemployment to persist in the year ahead, although some improvement in these expectations has been recorded recently (Chart 6). During the past 12 months a small but growing proportion of respondents expected unemployment to decline (up from 11 to 21 percent), and fewer respondents expected further increases in unemployment in the year ahead (down from 50 to 41 percent). This small improvement nonetheless leaves unemployment expectations at very unfavorable levels, with the unemployment rate expected to remain unchanged or to increase further from its current double-digit level by three-in-four families in the October 1982 survey.

Unemployment rather than inflation has been viewed by consumers as the more serious economic hardship facing the nation since the start of 1982. The October 1982 survey recorded a greater margin of concern with unemployment as opposed to inflation than at any other time during the past decade--a margin of three-to-one (Chart 8). The sharp increase in concern with unemployment also reflects declines in the expected rate of inflation. During the past several years the annual inflation rate expected by consumers declined from more than 12% to less than 6% in the most recent surveys (Chart 7). Overall confidence in government economic policies to reduce unemployment as well as inflation remained near the lowest level recorded thus far under the current administration (Chart 9). Among all families, almost twice as many rated government economic policies as poor rather than good in the third quarter 1982 surveys, in sharp contrast to the favorable balance of opinion that was recorded one year earlier.

Interest Rate Declines Improve Outlook for Economy

Despite the depth of concern with the current state of the economy, consumers expected future business conditions to improve. In the October 1982 survey, twice as many consumers expected business conditions to improve rather than worsen in the year ahead (Chart 10). When asked why they thought the economy would rebound, respondents more frequently reported that declines in inflation and interest rates would help improve the economy, while persistent concern about high levels of unemployment contributed to negative expectations. Favorable references to news about interest rate declines in the September and October 1982 surveys were the highest ever recorded in these surveys--reported by nearly one-in-five families. Moreover, consumers expected interest rates to continue their recent decline in the year ahead by more than a two-to-one margin (Chart 11).

Although the balance of opinion points toward expected improvements in the economy, consumers expected the improvement to be small and few expected the return of good times financially for the economy as a whole. Among all families, just 35 percent expected good times financially in the economy as a whole during the next 12 months. More than half of all families continued to expect bad times financially in the economy as a whole during the year ahead (Chart 12). Although both short and long term business expectations improved in recent months, they have remained at low levels. During the 1950s and 1960s these surveys rarely found American families to more frequently expect declines rather than improvements in business conditions over the longer term. Since the start of the 1970s, nearly all of the surveys have recorded a more pessimistic than optimistic long term economic outlook (Chart 13).

Buyers Await Interest Rate Declines

Attitudes toward buying conditions for houses, vehicles, and household durables have remained near record low levels for nearly two years. This persistently unfavorable view of market conditions has resulted from high interest rates. Concern with interest rates on consumer loans first reached record levels in the second quarter of 1980 (when the Carter administration announced a credit restrictions program), and, following a brief reversal in late 1980, returned to record high levels. During the past year declines in interest rates have been widely expected, which made consumers more resistant to the then prevailing interest rates charged on consumer loans. Among all families in the October 1982 survey, 35 percent said they had postponed purchases due to high interest rates, unchanged at this high level for more than a year (see Tables A and B). Vehicles were the most frequently postponed purchase, reported by 15 percent. Housing and home repair purchases were postponed by 10 percent, followed by household durables which were postponed by 8 percent of all families. Despite the widely announced declines in the market rates, the median interest rate reported as the rate that would have been charged on the postponed purchases was 17.6% in October 1982, a figure that has remained largely unchanged during the past year. The October survey thus offers no evidence that consumers had yet encountered lower rates on consumer loans.

Importantly, the expected declines in interest rates have already led to significant improvements in attitudes toward buying conditions. From July to October 1982, the proportion of families that held favorable attitudes toward buying conditions for houses rose from 15 to 32 percent, while the proportion holding unfavorable attitudes fell from 76 to 62 percent (Charts 14 and 15).

Although still unfavorable by a substantial margin, the October 1982 survey recorded more favorable house buying attitudes than at any time since October 1980. The major factor responsible for this improvement has been expected declines in mortgage interest rates (Chart 16). When respondents were asked to explain their views on house buying conditions, references to high mortgage rates fell from 82 percent in July to 60 percent in the October 1982 survey, while expectations of lower mortgage rates rose from 4 to 23 percent.

Declines in interest rates also led to a small improvement in car buying attitudes (Charts 18 and 19). The proportion of families that mentioned high interest rates for auto purchases fell to 19 percent in October 1982 from 32 percent in July (the all-time record level), while mentions of the availability of lower interest rates increased to 11 from 5 percent during the past three months (Chart 20). Lower interest rates had a relatively smaller impact on buying attitudes toward household durables, which reflects both less frequent use of credit for these purchases and interest rates on credit card accounts that are less responsive to market trends (Charts 22-24).

The recent improvement in house and car buying attitudes is similar to the improvement recorded in mid-1980 when market interest rates underwent a steep decline. From May to August 1980 house buying attitudes improved sharply as mentions of high interest rates declined from 75 to 41 percent, and expectations of lower mortgage rates increased from 6 to 28 percent. Unfortunately, the actual decline in consumer loan rates proved to be small and short-lived. As a result, house buying attitudes quickly reverted to record low levels. The recent improvement in house and car buying attitudes will likewise be sensitive to actual trends in interest rates.

The recent dominant role played by high interest rates has obscured other important shifts in consumer reactions to market prices. In the late 1970s, consumer reactions reflected both an aversion to high prices and a willingness to buy-in-advance of further price increases. At that time, consumers rarely mentioned the appeal or availability of low prices. In contrast, in mid 1982, buy-in-advance price rationales were rarely mentioned, and price declines and the availability of discounts and rebates were mentioned much more frequently. Thus far the 1982 monthly surveys have recorded more mentions of low housing prices and fewer complaints about high prices than at any other time during the past decade (Chart 17). The October 1982 survey also recorded more favorable references to the availability of lower prices and discounts on cars and household durables than unfavorable references to high prices (Charts 21 and 24). Such a favorable view of market prices has been recorded only rarely during the past several decades.

More favorable perceptions of market prices coupled with reductions in consumer loan rates will act to release pent-up demand, but increases in sales will be constrained by continued personal financial uncertainty. Increasingly during the past year, respondents have referred to the inability of families to make purchases due to unemployment and income declines. This lack of income discretion was cited by 20 percent of all families when asked to evaluate buying conditions for household durables in the third quarter 1982 surveys, up from just 8 percent one year earlier.

Income Declines Widespread

Consumer evaluations of their personal financial situation have remained at very unfavorable levels throughout the past year. In the third quarter 1982 surveys, 41 percent of all families reported that their financial situation had worsened during the past year, while 30 percent reported improvements (Chart 25). When asked to explain how their financial situation had improved or worsened during the past year, one-in-five families mentioned income declines in the third quarter 1982 surveys, more than at any other time during the prior two decades. Partially offsetting these unfavorable income trends, somewhat fewer respondents mentioned the adverse impact of inflation on their family budgets during the past year (Chart 26).

Concern with unemployment and income declines has kept most consumers cautious in their spending plans. Respondents expressed greater reluctance to draw on savings or incur new debt to finance major purchases in the third quarter of 1982 than at any time in the prior two years. The latest installment of the tax cut legislation did little to restore consumer willingness to make large discretionary purchases. In the third quarter of 1982, respondents were asked how their monthly take-home pay had changed as a result of the tax legislation, repeating questions asked in 1981 (see Table C). Not only did fewer families report income increases, but the expected amount of the monthly increase in disposable income also declined sharply during the past year. Among those families that reported increases in their take-home pay, the median monthly increase was $23 in 1982, half the $50 expected in 1981.

When asked whether they planned to save or spend the increase in after tax income, 43 percent of all families reported spending plans in 1982, up from 25 percent in 1981. Although spending rather than saving plans increased during the past year, since fewer families expected smaller increases, the net spending stimulus was left largely unchanged. Moreover, the increase was not in spending plans for major new purchases, but rather to cover everyday expenses.

Declines in the expected rate of inflation have led to the establishment of a more favorable personal financial outlook, even though smaller income increases are now expected. Nearly twice as many families in the third quarter 1982 surveys expected their personal financial situation to improve rather than worsen in the year ahead (Chart 27). Although income expectations have weakened somewhat in the past year, they did not decline as much as price expectations, leaving real income expectations more favorable, as shown by the comparison of Charts 28, 29 and 30.

In addition to the improvement in financial expectations, the financial balance sheets of American households also improved. The major reason for the improvement in the financial situation of households has been sharp reductions in debt. During the past year, the rate of asset and debt acquisition both declined, but the incurrence of debt declined to a much greater extent, and thus led to an improvement in the net saving rate (compare Charts 31 and 32). From 1979 to 1982, the net saving rate more than doubled, rising from under 5% to over 10%, and stood at 11.5% in the first quarter of 1982--higher than at any other time in the last 30 years.

This improvement in the financial balance sheets of American households is based on data derived from the Federal Reserve Board's Flow of Funds Accounts. Another more widely used measure of consumer savings, based on the National Income and Product Accounts (NIA) would not support similar conclusions. Charts 33 and 34 give greater detail on the difference between the NIA and FRB saving rates. In the early 1950s, the NIA saving rate was approximately 4 percentage points higher than the FRB saving rate. During the 1960s and 1970s the NIA saving rate was generally above the FRB rate but the difference was relatively small. In contrast, the FRB saving rate exceeded the NIA rate by 4 percentage points by mid 1982. Although the recent divergence is consistent with the long term trend, at no time during the past 30 years has the difference been so large. At present, the difference amounts to 82 billion, even after the most recent revisions are taken into account: $142 billion was saved at annual rates in the first half of 1982 when estimated according to the NIA procedure, compared with $224 billion dollars based on on the FRB procedure (see Table D).

How can this divergence be explained? It is of course true that the two saving measures are based on conceptually distinct approaches that defy exact reconciliation. Both methods calculate consumer saving as a residual. The FRB accounts may have allocated too few dollars to the business and foreign sectors, and thus overestimated consumer savings. Or the problem may lie in the underestimation of personal disposable income in the NIA accounts, which are based on IRS data. If NIA personal disposable income is underestimated, it would not only cause NIA saving to be underestimated, it would also cause the FRB saving rate to be overestimated (since the income base should have been larger). At the present time, I cannot tell you whether one or both of these hypotheses are correct. But until the recent sharp divergence in the NIA and FRB data are better understood, analysts must view both sets of saving data with greater skepticism than usual.

Summary Outlook

The most distinctive aspect of recent trends in consumer sentiment has been the sharp divergences produced by changes in unemployment, inflation, and interest rates. The current record level of unemployment has been reflected in the very bleak evaluations of the current state of the economy. And although business conditions are expected to improve in the year ahead, the improvement is anticipated to be small due to the expected persistence of high unemployment. At the same time, declines in inflation have led to more favorable financial expectations, and more favorable views toward product prices. And during the past several months, a heightened awareness of declines in interest rates has been recorded, coupled with the expectation that these declines would continue in the year ahead. Interest rate declines are expected to help improve business conditions generally, as well as buying conditions for houses and cars. While declines in consumer loan rates will release pent-up demand, the increase in consumer sales will be constrained by cautious spending plans dictated by concerns with unemployment. A modest but cumulative recovery in consumer sales during 1983 will depend both on sustained declines in consumer loan rates as well as on renewed growth in household incomes.

Consumer spending and saving behavior will remain highly responsive to current and expected trends in interest rates in both the near and longer term. One of the goals of public policy is to increase consumer saving to provide the necessary capital for business investments. The principal tools of this policy have been a tight monetary policy coupled with tax and expenditure cuts. The tight monetary policy aims to achieve the lower rates of inflation needed for long term savings to prosper. The high rates of interest which accompanied the larger federal deficits have also induced consumers to shift from debt acquisition to asset accumulation. The spending cuts, in addition to their direct impact on social programs, have sent important signals to consumers. The primary motives for saving, documented in more than thirty years of surveys, have been 1) to provide security and emergency funds in case of economic adversity, 2) for the education of children, and 3) to provide for retirement. The expenditure cuts may result in consumers becoming more concerned about each of these needs and hence raise the desired level of savings and reserve funds.

In the 1960s and 1970s economic policies acted to monetize the federal budget deficits--that is, federal deficits were accommodated by introducing more money into circulation, rather than borrowing more money from the private financial markets. This practice resulted in lower interest rates and higher inflation rates. Since the change in monetary policy in late 1979, the federal government has directly competed with the business and consumer sectors for available funds. This new procedure has led to lower inflation rates and higher and more variable interest rates. If during the decade of the 1980s these economic policies remain unchanged--that is, a restrictive monetary policy coupled with personal income tax rates indexed for inflation--the burden of economic adjustments will be enforced, not by inflation, but by interest rates, with consumer savings forced to provide the financial flexibility for the economy to adjust. Over the longer term, consumer investments in financial assets will thus be favored rather than consumer investments in houses, vehicles, and durables.

One year ago at this conference, the title I chose to highlight the 1982 consumer outlook was "Interest Rates Dominate Behavior," a theme I summarized by saying it was likely that "...interest rates would replace inflation rates as the driving force of trends in consumer attitudes and expectations." This same observation holds equally true for the 1983 outlook, as consumer spending and saving behavior remains highly responsive to current and expected trends in interest rates.

CHART 1 - HISTORICAL SERIES
THE INDEX OF CONSUMER SENTIMENT

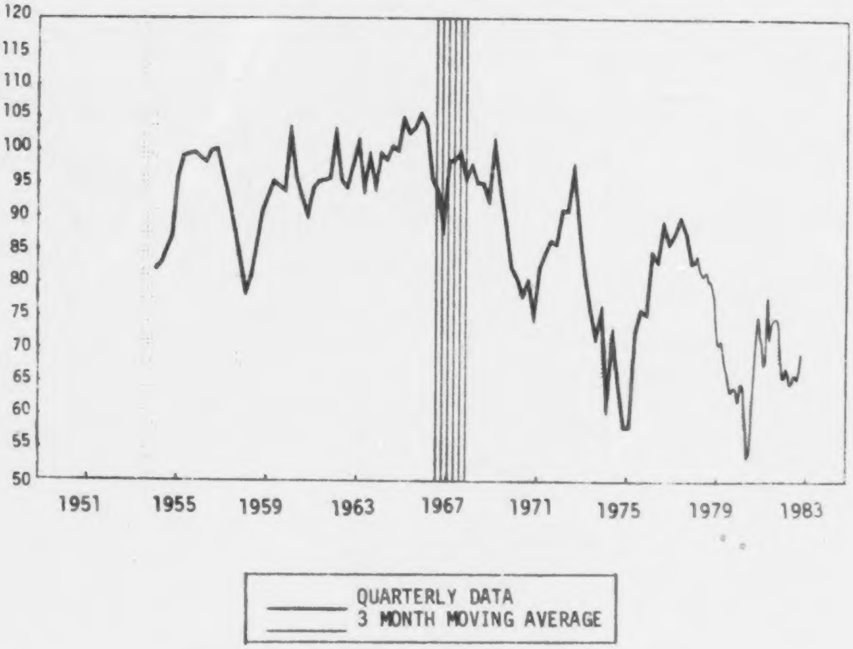


CHART 2

CURRENT BUSINESS CONDITIONS COMPARED WITH A YEAR AGO

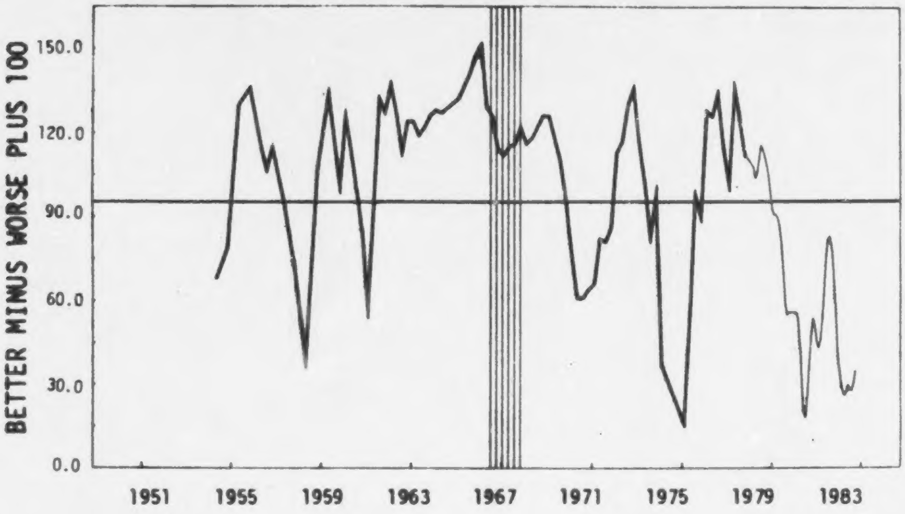
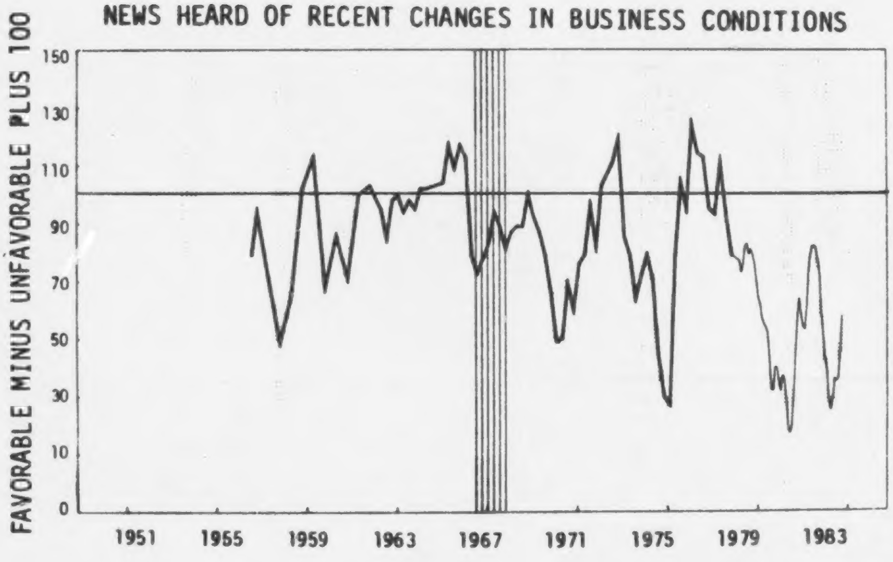


CHART 3

NEWS HEARD OF RECENT CHANGES IN BUSINESS CONDITIONS



The questions were: "Would you say that at the present time business conditions are better or worse than they were a year ago?" "During the last few months, have you heard of any favorable or unfavorable changes in business conditions?"

CHART 4

NEWS HEARD ABOUT CHANGES IN PRICES

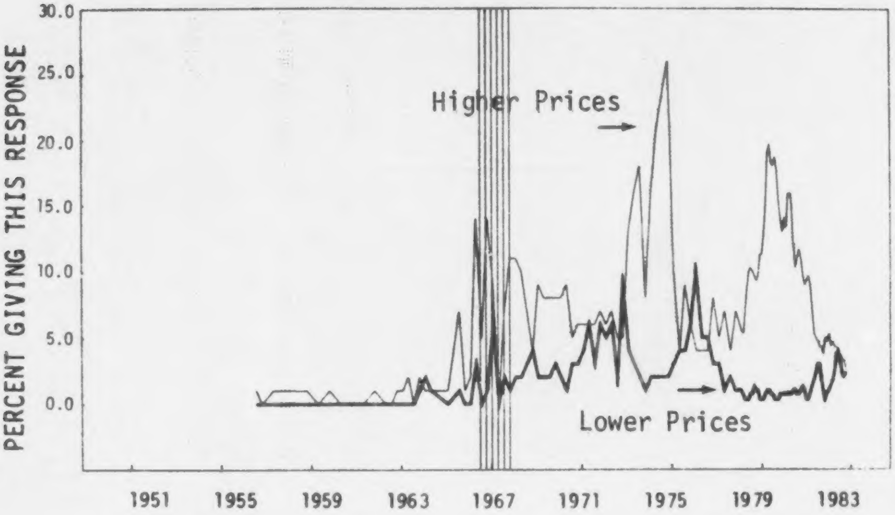
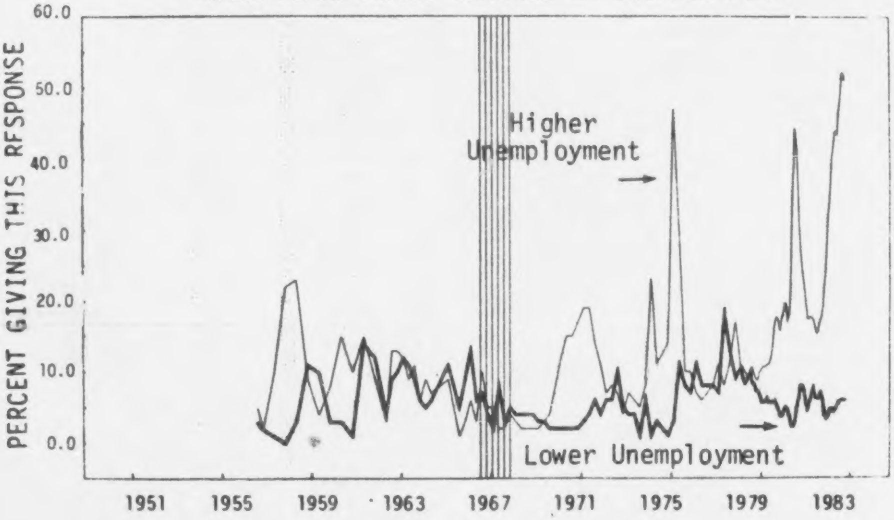


CHART 5

NEWS HEARD ABOUT CHANGES IN UNEMPLOYMENT



The question was "What did you hear?" in response to the question "During the last few months, have you heard of any favorable or unfavorable changes in business conditions?"

CHART 6

EXPECTED CHANGE IN UNEMPLOYMENT

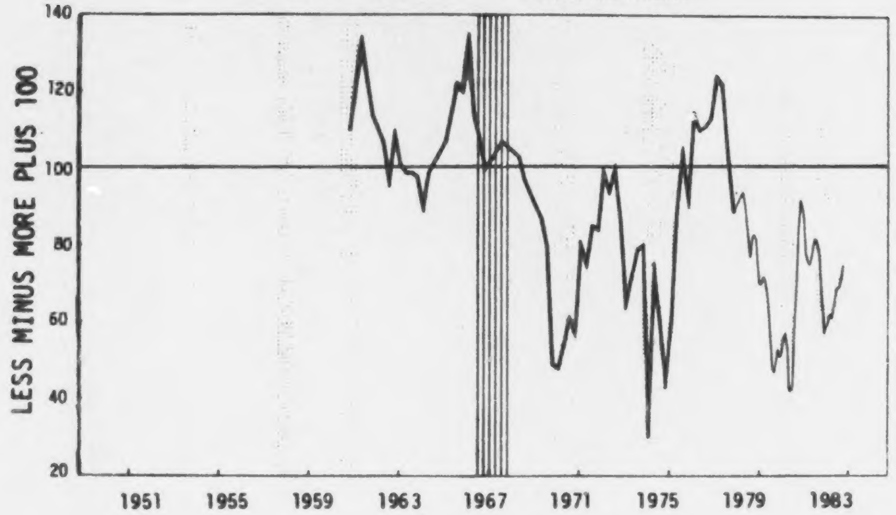
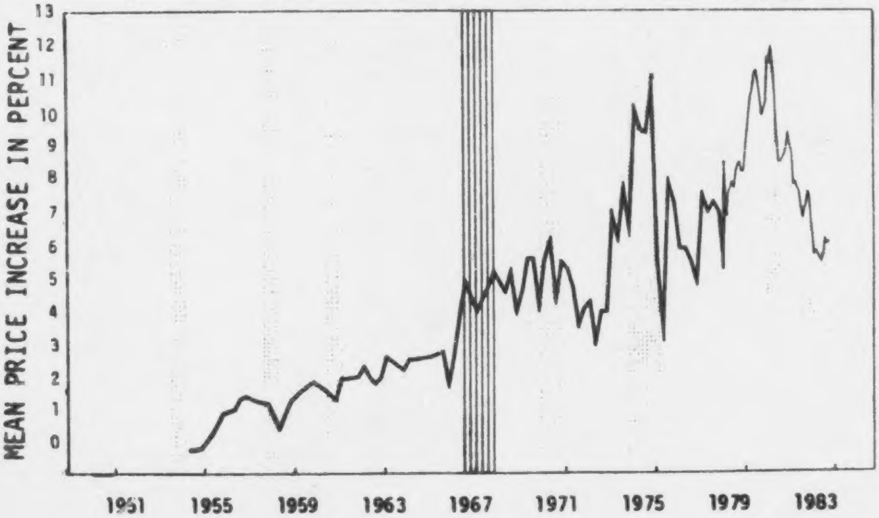


CHART 7

MEAN EXPECTED PRICE INCREASE OVER THE NEXT 12 MONTHS



The questions were: "How about people out of work during the coming 12 months--do you think that there will be more unemployment than now, about the same, or less?" "During the next 12 months, do you think that prices in general will go up, or go down, or stay where they are now?" and "By about what percent do you expect prices to go up, on the average, during the next 12 months?"

CHART 8

UNEMPLOYMENT OR INFLATION MORE SERIOUS

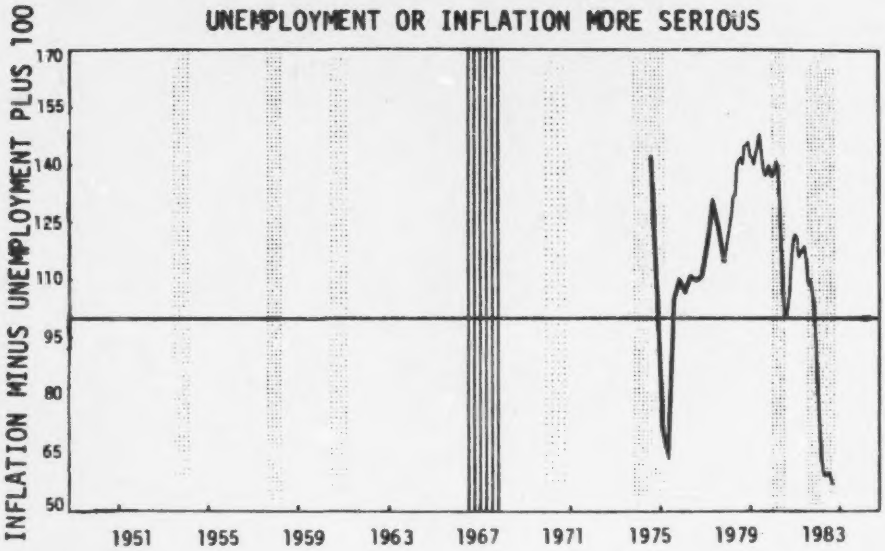
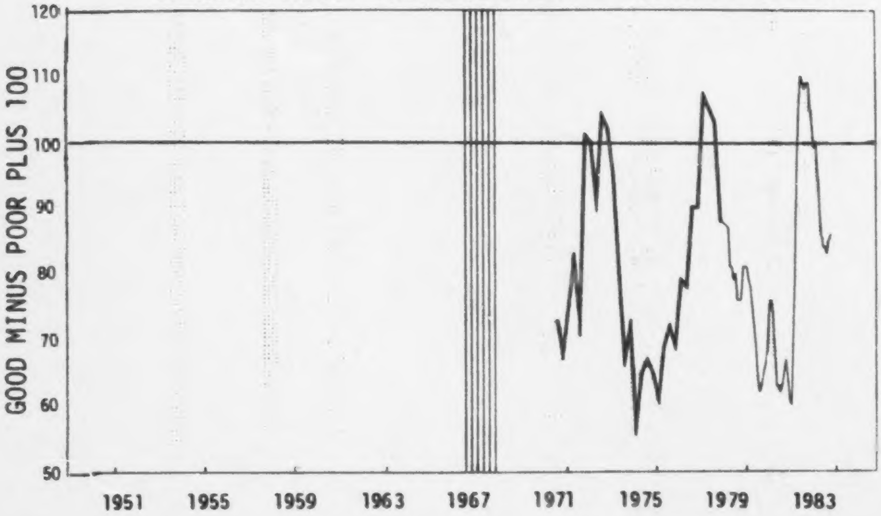


CHART 9

OPINIONS ABOUT THE GOVERNMENT'S ECONOMIC POLICY



The questions were: "Which of the two problems--unemployment or inflation--do you think will cause the more serious economic hardship for people during the next year or so?" "As to the economic policy of the government--I mean steps taken to fight inflation or unemployment--would you say the government is doing a good job, only fair, or a poor job?"

CHART 10

EXPECTED CHANGE IN BUSINESS CONDITIONS IN A YEAR

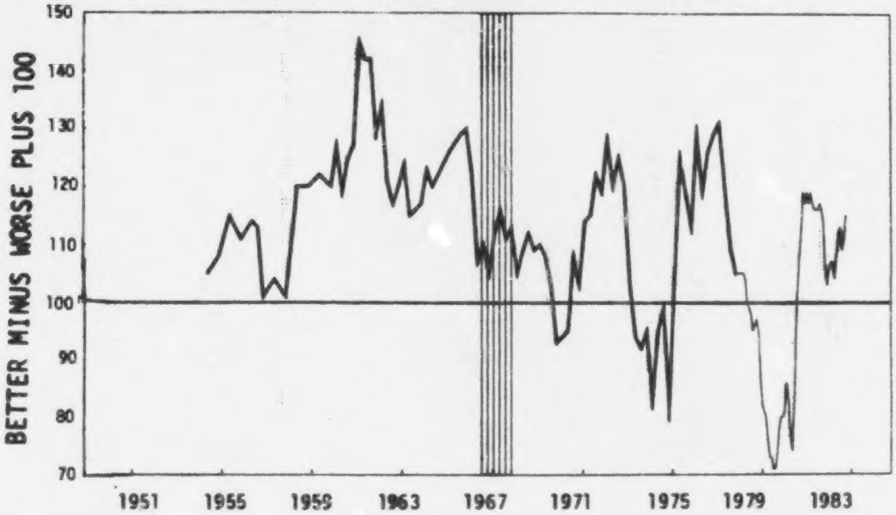
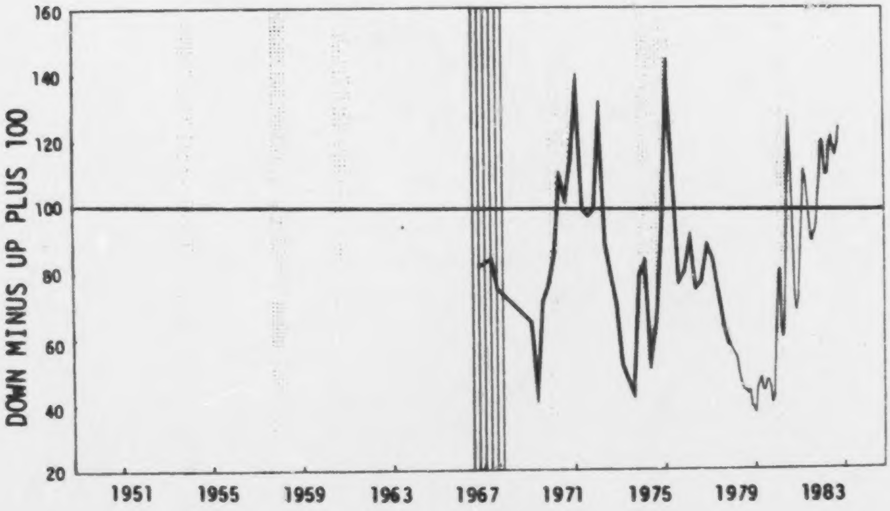


CHART 11

EXPECTED CHANGE IN INTEREST RATES



The questions were: "And how about a year from now, do you expect that in the country as a whole business conditions will be better, or worse than they are at present, or just about the same?"

"No one can say for sure, but what do you think will happen to interest rates for borrowing money during the next 12 months--will they go up, stay the same, or go down?"

CHART 12

BUSINESS CONDITIONS EXPECTED DURING THE NEXT TWELVE MONTHS

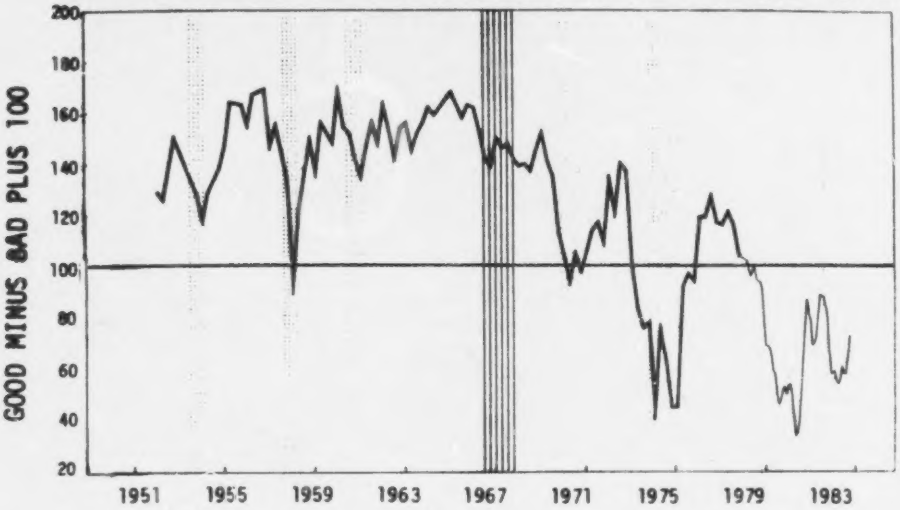
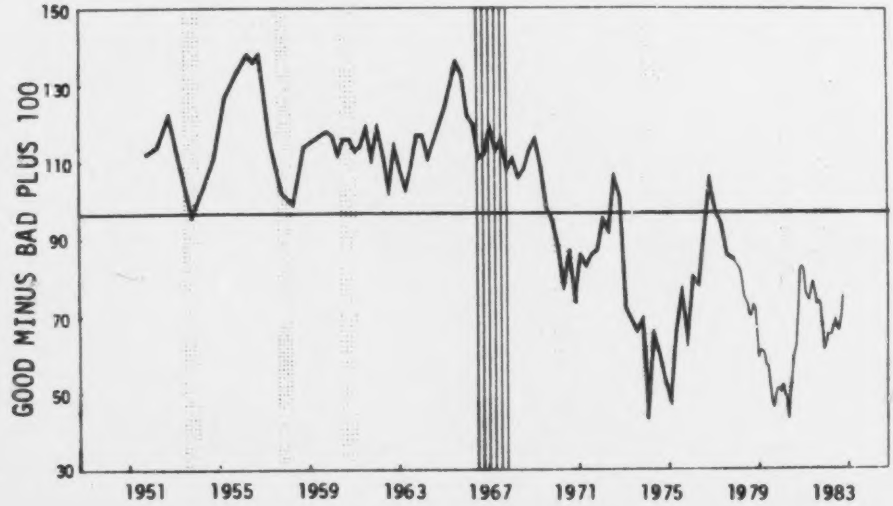


CHART 13

BUSINESS CONDITIONS EXPECTED FOR THE NEXT FIVE YEARS



The questions were: "Now turning to business conditions in the country as a whole--do you think that during the next 12 months we'll have good times financially, or bad times, or what?"

"Looking ahead, which would you say is more likely--that in the country as a whole we'll have continuous good times during the next 5 years or so, or that we will have periods of widespread unemployment or depression, or what?"

TABLE A

INTEREST RATE EFFECT ON CONSUMER PURCHASES DURING THE LAST SIX MONTHS

	June 1980	4th Qtr 1981	1st Qtr 1982	2nd Qtr 1982	3rd Qtr 1982	Oct. 1982
Postponed Purchases:[a]	15%	34%	33%	32%	34%	35%
Vehicles	5	13	11	12	13	15
House, home repairs	2	13	11	11	9	10
Household durables	7	8	10	8	10	8
Other	1	5	7	7	6	6
Did not postpone purchase	84	65	66	67	64	65
Don't know, not ascertained	1	1	1	1	2	*
Total	100%	100%	100%	100%	100%	100%

---

*Less than half of one percent.

[a] Items add to more than total due to multiple mentions.

TABLE B

INTERESTERST RATE EFFECT ON CONSUMER PURCHASES DURING THE LAST SIX MONTHS

	4th Qtr. 1981	1st Qtr. 1982	2nd Qtr. 1982	3rd Qtr. 1982	Oct. 1982	October, 1982		
						Vehicles	House, Home Repairs	Household Durables
Postponed Purchases								
Percent of Households	34%	33%	32%	34%	35%	15%	10%	8%
Interest rate that would have been charged on postponed purchase								
Median	17.5%	17.7%	17.5%	17.6%	17.6%	17.3%	16.7%	18.4%
Highest interest willing to pay to make purchases								
Median	11.9%	12.0%	11.9%	11.9%	11.8%	11.7%	11.4%	11.9%
Difference between interest rate charged and willing to pay								
Median	4.7%	5.1%	5.1%	5.3%	5.5%	5.3%	4.7%	6.5%

The questions were: "Have interest rates caused you to postpone making any purchases during the last six months?" "What was postponed?" "What interest rate would have been charged on any money borrowed for (ITEM)?" and "What is the highest interest rate at which you would have purchased (ITEM)?"

CHART 14

BUYING CONDITIONS FOR HOUSES

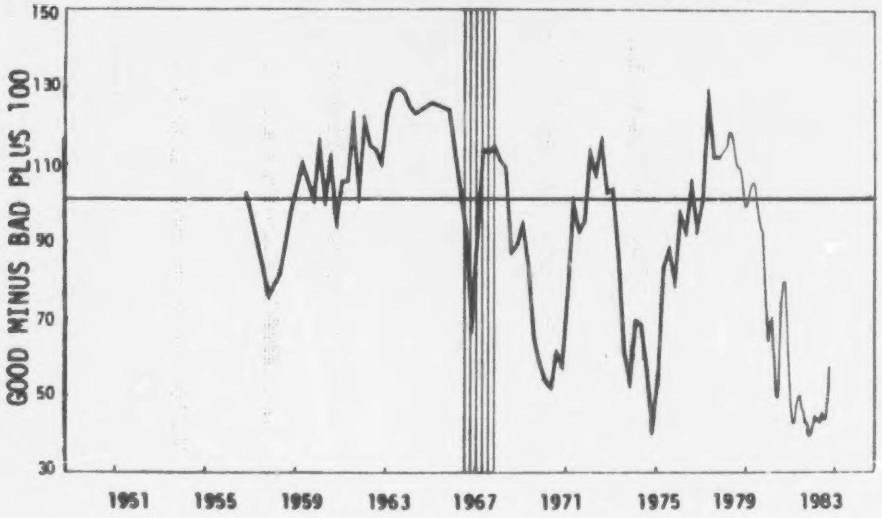
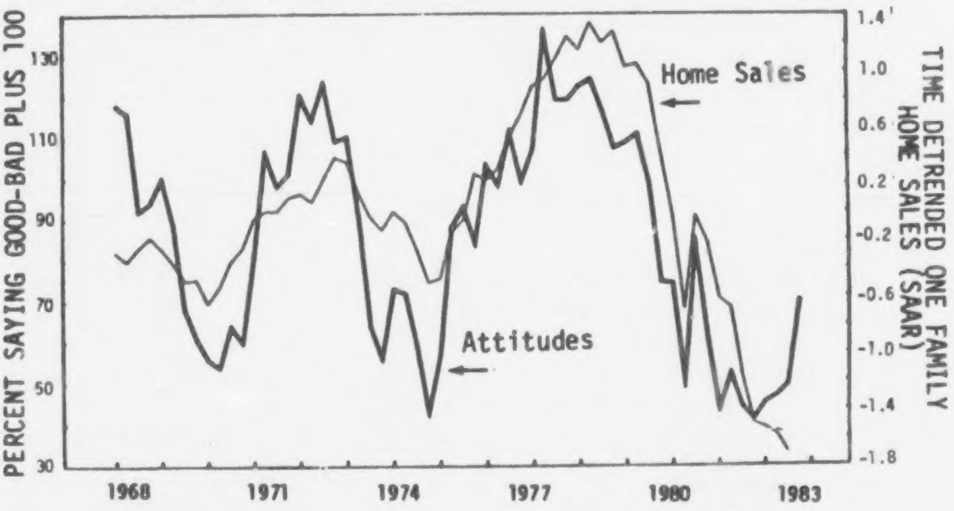


CHART 15

BUYING ATTITUDES FOR HOUSES AND TOTAL HOME SALES



The questions were: "Generally speaking, do you think now is a good time or a bad time to buy a house?"

CHART 16

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR HOUSES

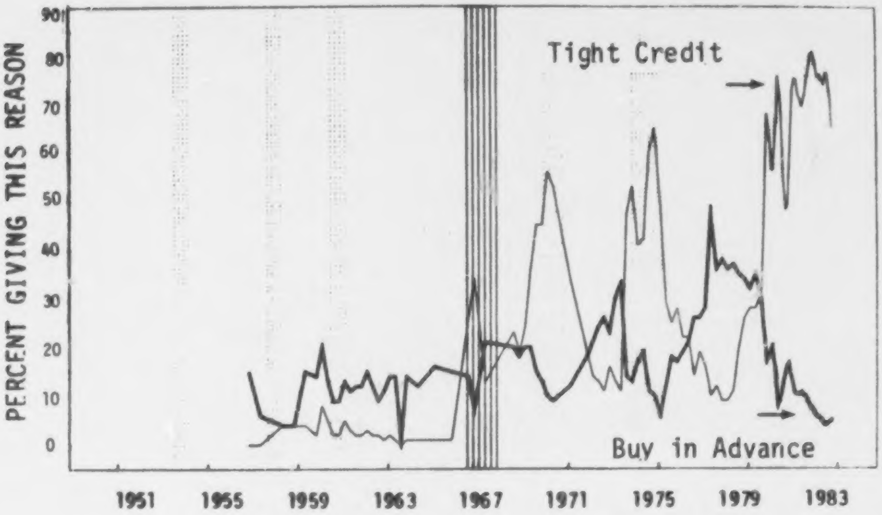
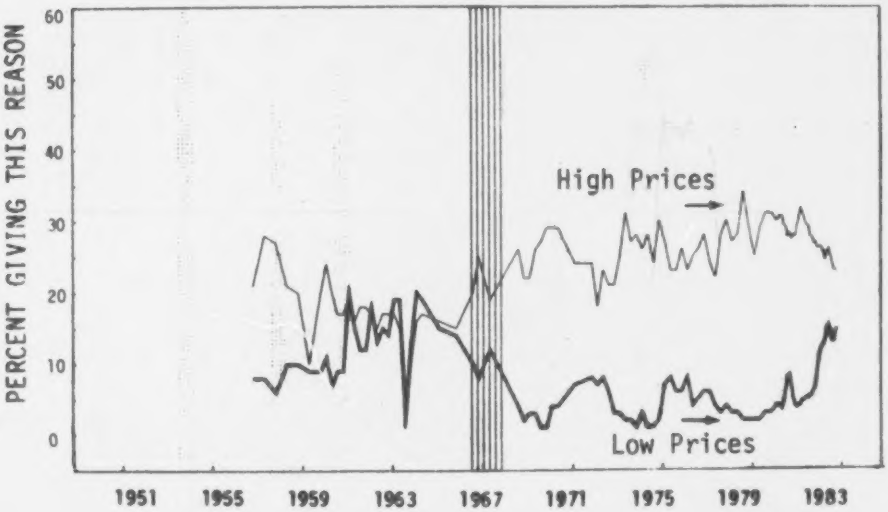


CHART 17

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR HOUSES



The questions were: "Why do you say so?" in response to the question "Generally speaking, do you think now is a good time or a bad time to buy a house?"

CHART 18

BUYING CONDITIONS FOR CARS

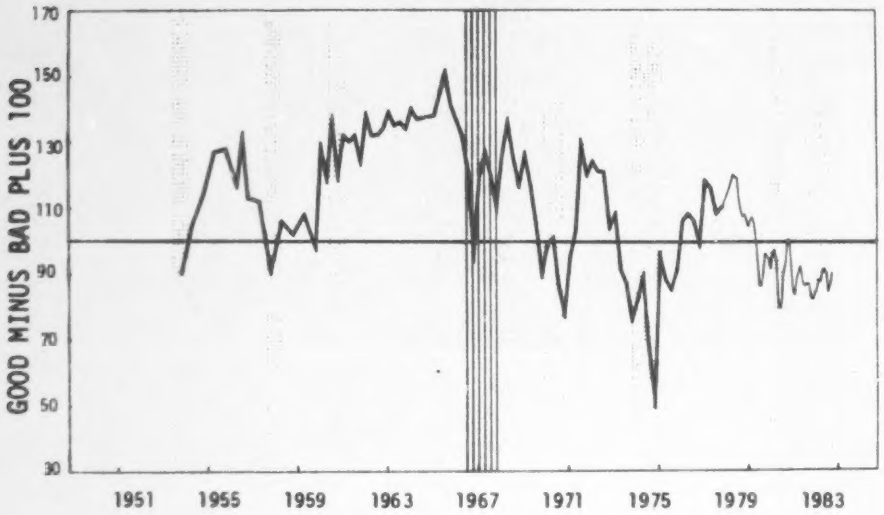
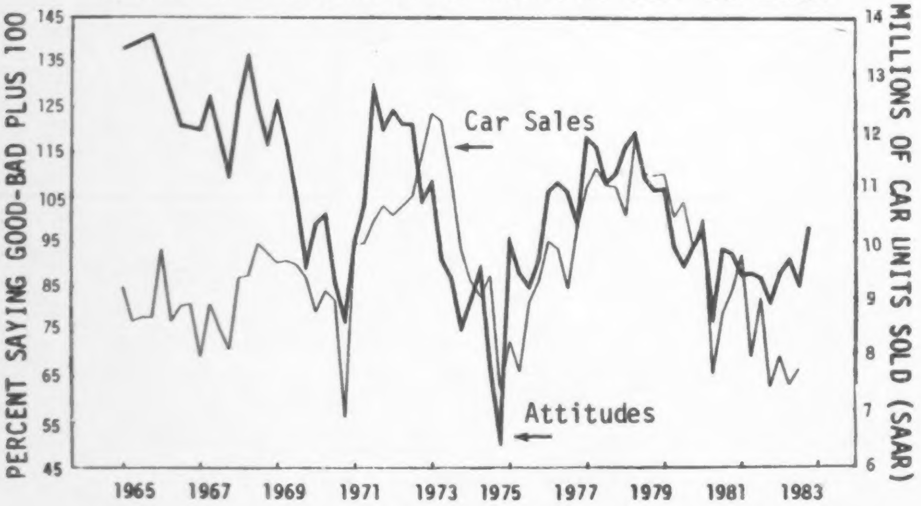


CHART 19

BUYING ATTITUDES FOR CARS AND TOTAL UNIT CAR SALES



The questions were: "Speaking now of the automobile market--do you think the next 12 months or so will be a good time to buy a car?"

CHART 20

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR CARS

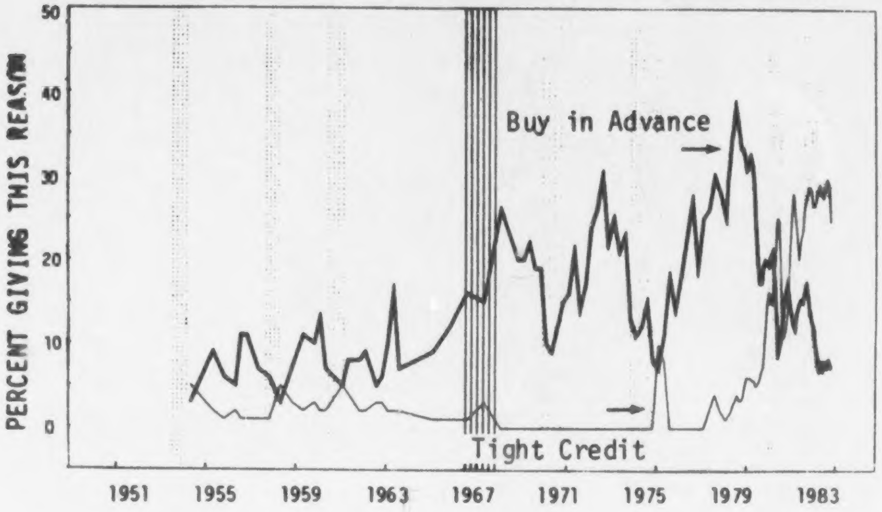
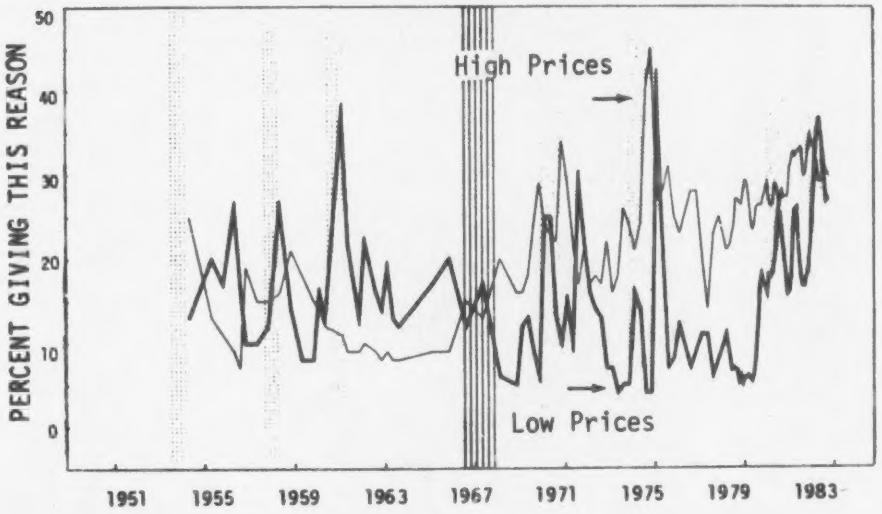


CHART 21

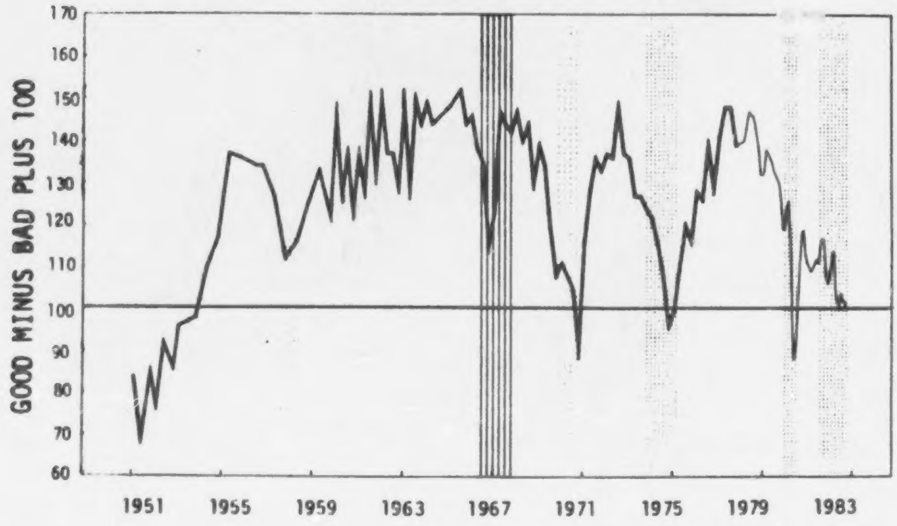
REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR CARS



The question was: "Why do you say so?" in response to the question "Speaking now of the automobile market--do you think the next 12 months or so will be a good time to buy a car?"

CHART 22

BUYING CONDITIONS FOR LARGE HOUSEHOLD GOODS



The questions were: "About the big things people buy for their homes--such as furniture, a refrigerator, stove, television, and things like that. Generally speaking, do you think now is a good or a bad time for people to buy major household items?" and "Why do you say so?"

CHART 23

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR DURABLES

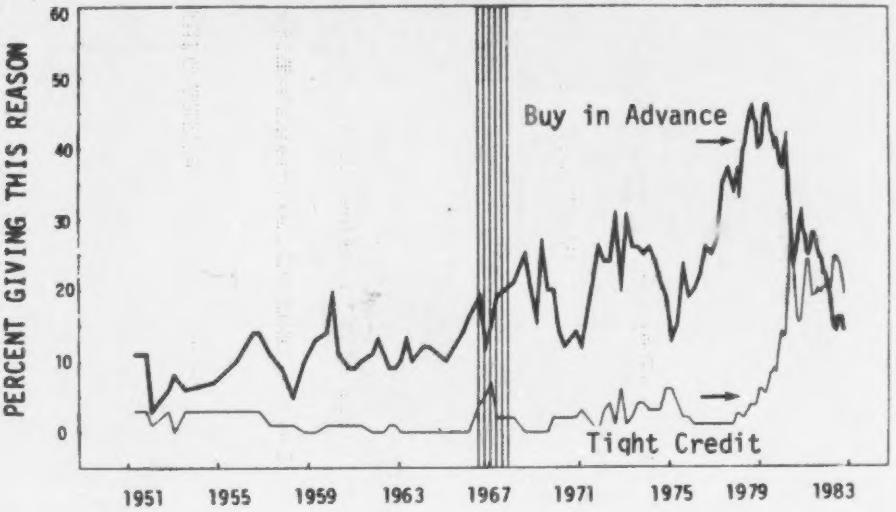


CHART 24

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR DURABLES

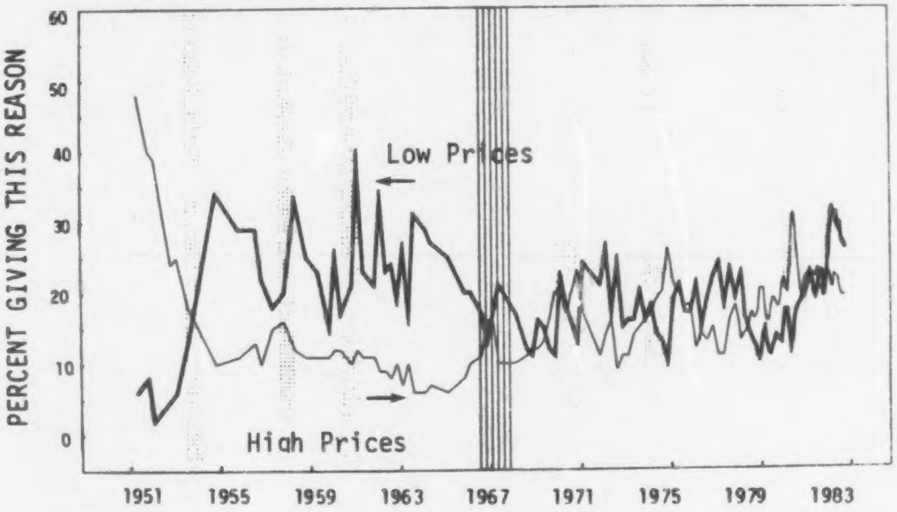


TABLE C

EXPECTED CHANGE IN MONTHLY TAKE-HOME PAY RESULTING FROM PERSONAL INCOME TAX REDUCTIONS

Expect Take-home Pay to...	1963	April-May 1981	3rd Quarter 1982
Increase	NA	46%	29%
Stay the same		40	54
Decrease		2	6
Does not pay taxes		6	7
Don't know		2	1
Not ascertained		4	3
Total		100%	100%
Cases		1224	2083
Expect Increase in Monthly Take-home Pay			
Median	NA	$50	$23
Planned Use of Increase in Take-home Pay			
Spend	31%	25%	43%
New purchases	NA	8	8
Current expenses	NA	17	35
Repay debt	12	21	22
Save, invest	44	41	25
Both spend and save	9	4	4
Don't know, not ascertained	4	9	6
Total	100%	100%	100%

The questions were: (April-May 1981) "If the personal income tax reductions were actually passed, would you expect your monthly take-home pay to increase, stay the same, or what?" IF INCREASE: "About how much more money would you expect to take home each month?" "What do you think you would do with this money--spend it, save it, invest it, repay debts, use it for a down-payment on something, or what?"

(3rd Quarter 1982) "As a result of the 1982 federal tax cut, would you expect your monthly take-home pay to increase, stay the same, or what?" IF INCREASE: "About how much more money would you expect to take home each month?" "What do you think you would do with this money--spend it, save it, invest it, repay debts, use it for a down-payment on something, or what?"

(1963) "Suppose that income taxes are cut, so that next year everyone will have more of his money left after taxes--what do you think most people would do with this money?"

CHART 25

CURRENT FINANCIAL SITUATION COMPARED WITH A YEAR AGO

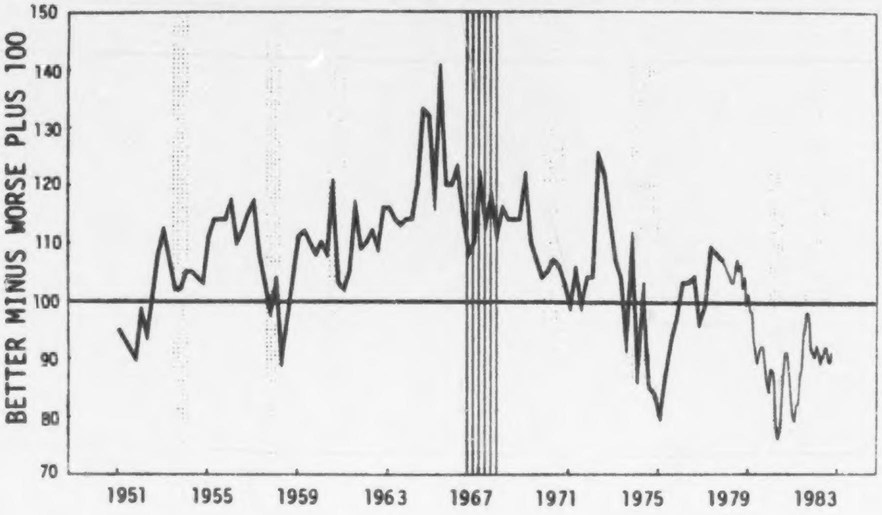
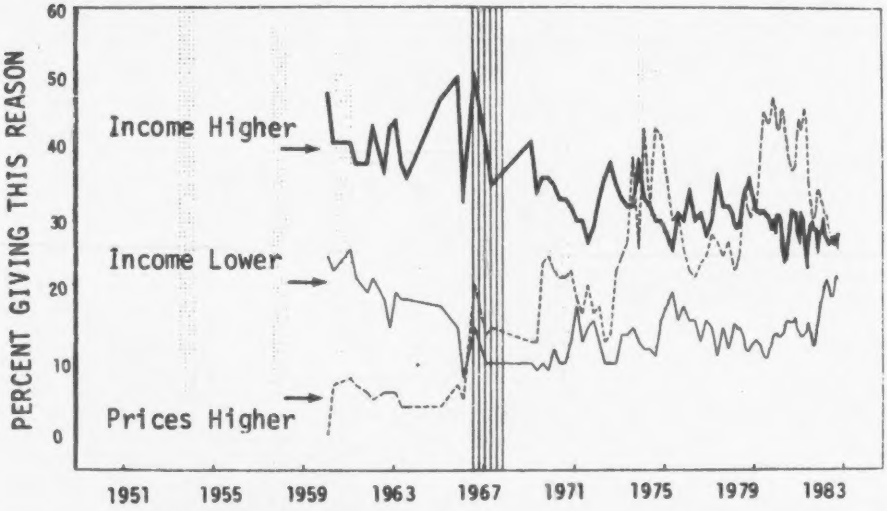


CHART 26

REASONS FOR OPINIONS ABOUT PERSONAL FINANCIAL SITUATION



The questions were: "We are interested in how people are getting along financially these days. Would you say that you (and your family living there) are better off or worse off financially than you were a year ago?" and "Why do you say so?"

CHART 27
EXPECTED CHANGE IN FINANCIAL SITUATION

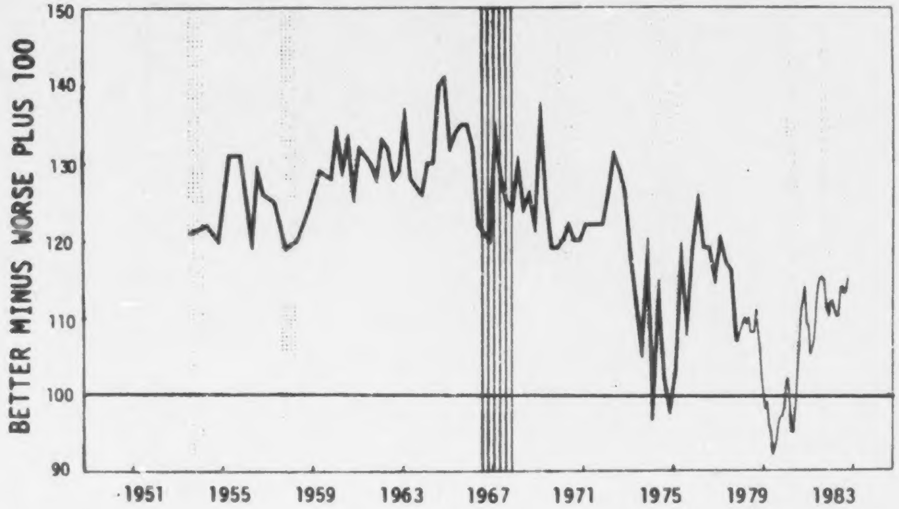
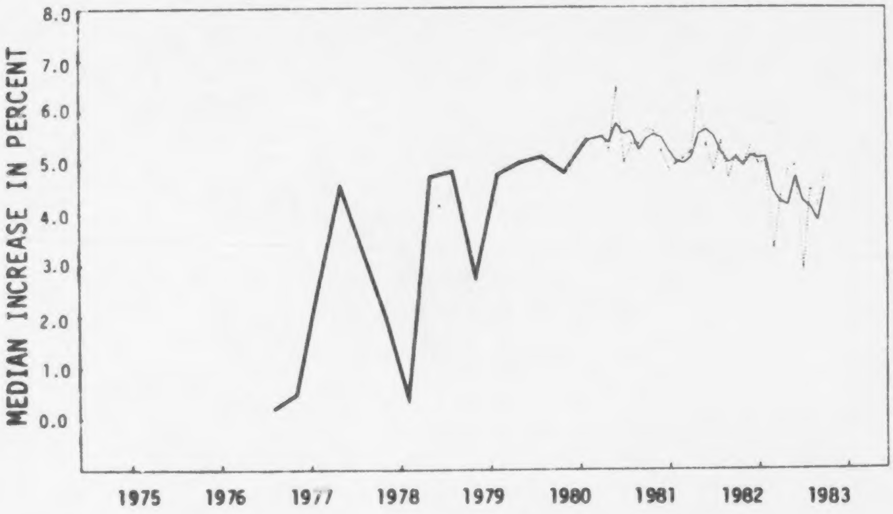


CHART 28
MEDIAN EXPECTED CHANGE IN FAMILY INCOME



The questions were: "Now looking ahead--do you think that a year from now you (and your family living there) will be better off financially, or worse off, or just about the same as now?"
"During the next 12 months, do you expect your (family) income to be higher or lower than during the past year?" and "By about what percent do you expect your (family) income to increase during the next 12 months?"

CHART 29

MEAN EXPECTED PRICE INCREASE OVER THE NEXT 12 MONTHS

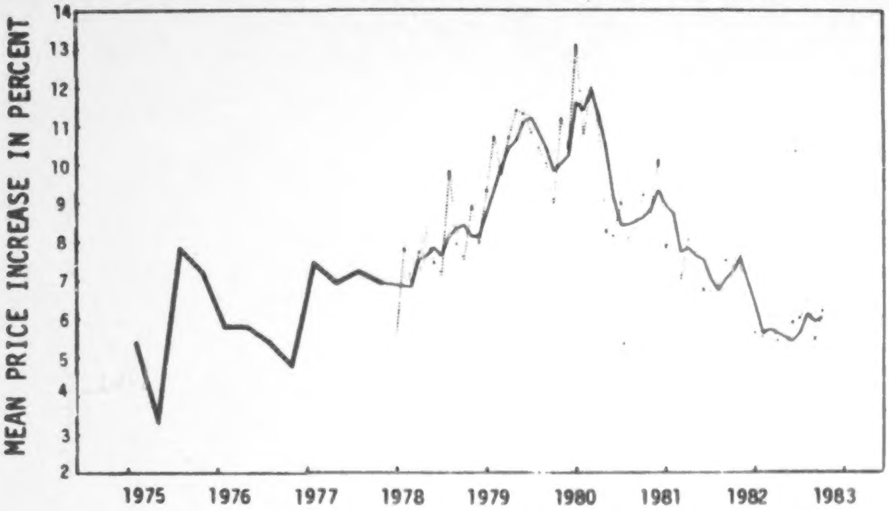
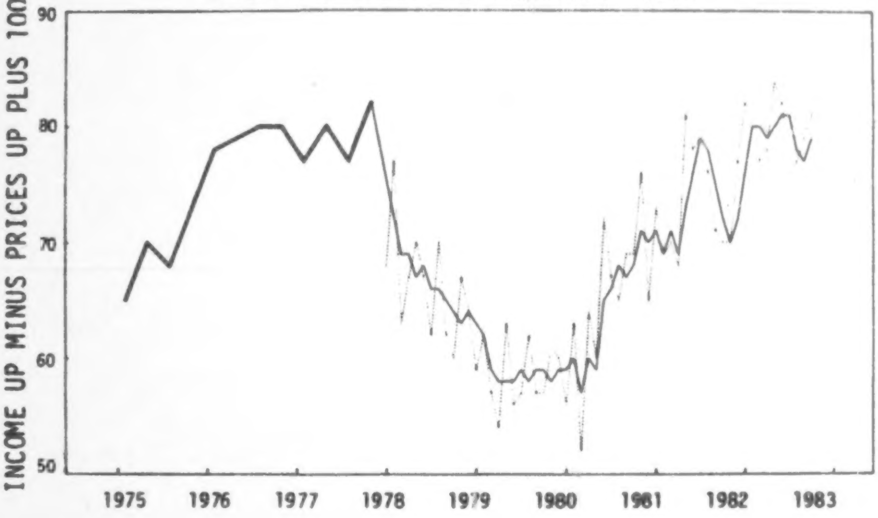


CHART 30

INCOME OR PRICES UP MORE NEXT YEAR

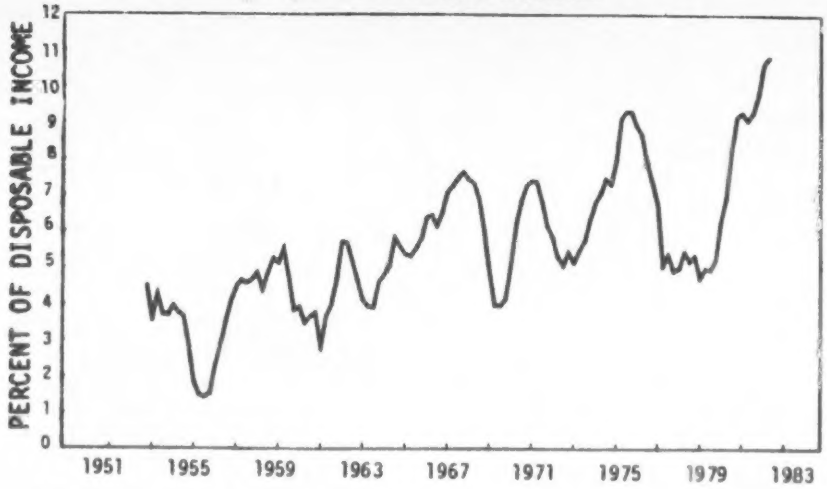


The questions were: "During the next 12 months, do you think that prices in general will go up, or go down, or stay where they are now?" and "By about what percent do you expect prices to go up, on the average, during the next 12 months?"

"How about the next year or two--do you expect that your (family) income will go up more than prices will go up, about the same, or less than prices will go up?"

CHART 31

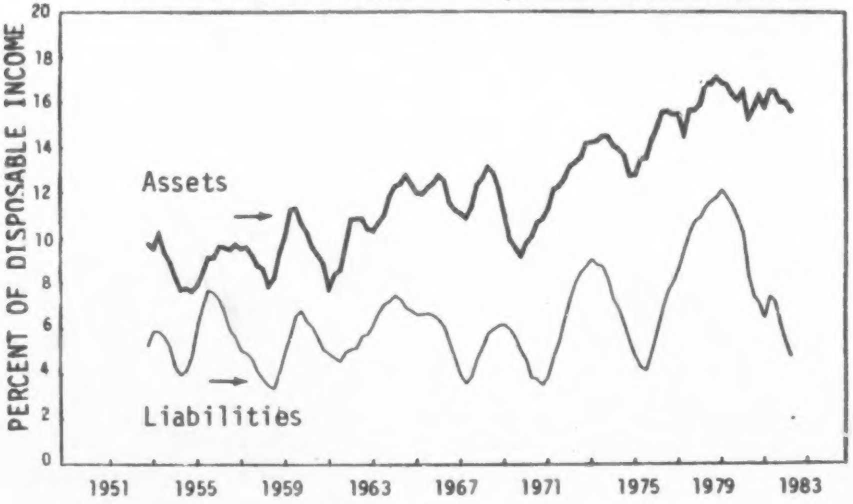
FRB NET SAVING RATE
4 QUARTER MOVING AVERAGE



Source: Federal Reserve Board

CHART 32

NET ACQUISITION OF FINANCIAL ASSETS AND LIABILITIES
AS A PERCENT OF INCOME - 4 QUARTER MOVING AVERAGE



Source: Federal Reserve Board

CHART 33

SAVING RATE - NIA AND FRB BASIS
FOUR QUARTER MOVING AVERAGES

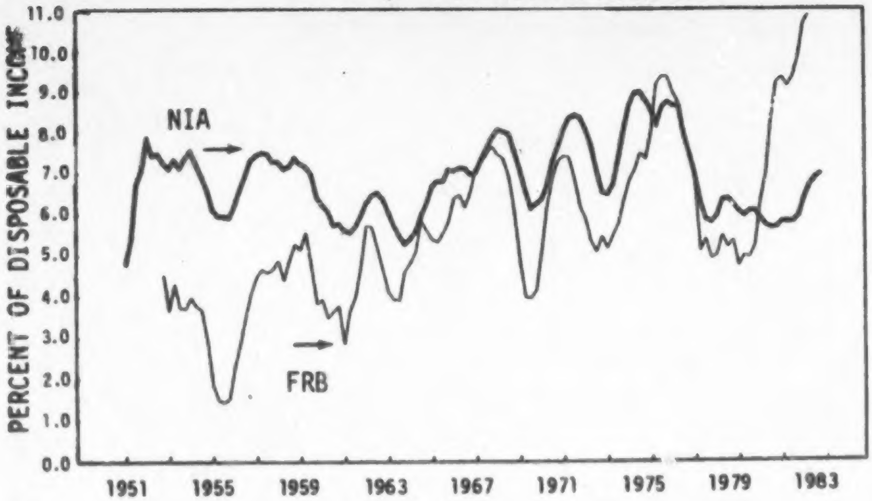


CHART 34

DIFFERENCE BETWEEN NIA AND FRB SAVING RATES
FOUR QUARTER MOVING AVERAGE

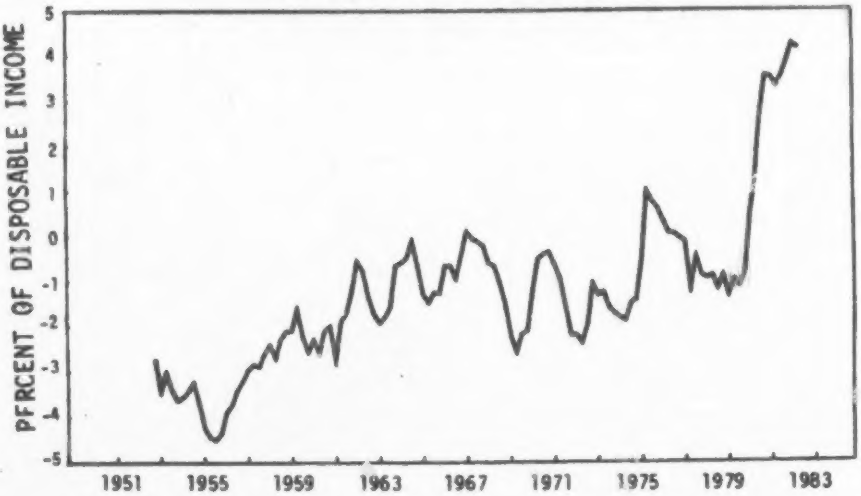


TABLE D

FLOW OF FUNDS ACCOUNTS, SECTOR DISCREPANCIES

(Billions of Current Dollars)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
FRB Saving	44.2	58.1	73.2	102.1	87.9	64.5	78.6	86.6	168.2	199.5	223.5
NIA Saving	52.6	79.0	85.1	94.3	82.5	78.0	89.4	96.7	106.2	130.2	141.8
Difference	-8.4	-20.9	-11.9	7.8	5.4	-13.5	-10.8	-10.1	62.0	69.3	81.7
Sector Discrepancies											
All Sectors	-4.7	-.3	0.2	4.6	3.3	-.6	11.6	1.7	-30.3	8.6	15.8
Households	-9.0	0.4	-1.8	-16.8	-24.6	-16.7	-25.7	-33.5	-67.0	-71.2	-66.4
Business	2.4	0.5	*	6.0	9.0	14.7	21.2	-.8	8.1	34.1	71.5
Government	5.1	3.9	4.2	9.5	13.1	11.1	11.1	17.6	10.5	23.1	4.0
Financial	-1.3	-3.1	0.1	0.3	-3.8	-6.6	-6.6	-9.4	-5.6	-4.7	-8.7
Foreign	-1.9	-2.0	-2.4	5.7	9.6	-2.9	11.5	27.8	23.7	27.2	15.5

---

*Less than $1 billion.

Source: Federal Reserve Board

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SURVEYS OF CONSUMER ATTITUDES

MONITORING ECONOMIC CHANGE PROGRAM

SURVEY RESEARCH CENTER
UNIVERSITY OF MICHIGAN

Institute for Social Research

PAYMENT METHOD COSTS:
ASSESSMENTS BY RETAILERS

by

Richard T. Curtin

September 1983 WP18

This study was funded by the Federal Reserve Board as part of a Congressionally mandated evaluation of the Cash Discount Act of 1981. The Survey Research Center at the University of Michigan conducted the nationally representative survey of retailers between April 18 and May 20, 1983. This report reflects solely the research and analysis of the Survey Research Center not that of the Federal Reserve Board. The successful completion of this research was made possible by Mary Grace Moore, whose expert skills helped to improve all aspects of the study, from qeustionnaire design to data analysis. Steve Heeringa was the sampling statistician, Nancy Gebler supervised interviewing, and Joan Scheffler supervised the coding operation.

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HIGHLIGHTS

* This study was based on a sales-weighted nationally representative sample of all non-food retail establishments, excluding vehicle dealers.

* The vast majority of retailers surveyed accepted cash (almost 100 percent), personal checks (96 percent), and one or more third-party credit cards (82 percent). Although each payment method was widely accepted, credit card sales accounted for just 10% of total sales, while cash and personal checks combined accounted for 60% of total sales.

* In sharp contrast to third party credit cards, store credit cards were accepted by just 11 percent of all retailers; but among retailers that had store credit cards, 34% of total sales were accounted for by this payment method.

* Few retailers monitored or estimated cost differences for the various payment methods they accepted (14 percent). Even among firms with annual sales volumes over $5 million, only 31 percent monitor some cost differences, and just 17 percent monitor all types of costs.

* As a percentage of the average transaction size, the costs of accepting cash were lowest (2.0%), closely followed by personal checks (2.5%), with third-party credit cards the most expensive payment method to accept (4.0%).

* Higher costs incurred by accepting personal checks mainly involved loss from bad checks, most frequently mentioned by the largest retailers in terms of annual sales volume. The largest retailers were also the most likely to report paying check verification fees.

* The much higher reported cost of accepting third-party credit cards was chiefly due to card fees and charges, although point-of-purchase costs were also higher. In comparison with personal checks, the cost disadvantage of third-party credit card sales was least among the largest retailers, for whom credit cards provided significant reductions in losses due to bad checks. Importantly, for retailers using a check verification service, the median fee charged was 3.0%, identical to the reported median third-party credit card fee.

* When asked why they accepted third-party credit cards despite their relatively higher costs, the dominant responses given by retailers involve revenue not cost considerations: 44 percent mentioned customer convenience, and an additional 40 percent thought acceptance of third-party credit cards encouraged sales.

* Among all retailers surveyed, 10 percent offered a discount for payment in cash instead of using a third-party credit card. The median discount offered was 4.0%. Among retailers that offered cash discounts, the majority were either gasoline stations (39 percent) or furniture stores (27 percent).

* The majority of retailers thought that offering discounts for payments in cash was a bad idea (57 percent), and the majority also thought adding an extra fee or surcharge to credit cards sales was a bad idea (71 percent). When asked whether they would prefer a cash discount or a credit surcharge, almost half of all retailers surveyed would prefer neither one (47 percent), with 29 percent preferring cash discounts and 22 percent preferring credit surcharges.

1. SAMPLE DESIGN

This study of payment method costs was based on a telephone survey of a nationally representative sample of non-food retail establishments, excluding motor vehicle dealers. Individual retailers were selected with probabilities proportionate to their share of total annual retail sales. Consequently, the response distributions given in this report represent total dollar sales, not the total number of retailers. The reported percentages of sample respondents giving one or another answer is equivalent to the proportion of total dollar sales represented by those same retailers.

Selection of Retailers

The study population includes all retail establishments in the coterminous United States with a primary SIC code from one of the following two, three, and four digit categories: SIC 52 (excluding 527), 53, 553, 554, 56, 57, 591, 594, 5961, 5983, 5984, and 5992. Table 1.1 gives the definition of each SIC code included in the sample, as well as the excluded codes. The major exclusions involved food (SIC 54, 58, 592) and vehicle sales (SIC 527, 551, 552, 555, 556, 557, 559). Overall, the sample design is representative of approximately half of all retail sales and approximately half of all retail establishments (see Table 1.2).

Sample establishments were selected using a two-step procedure. First, a sample of establishments was provided by Dun & Bradstreet Corporation from its master list, using specifications provided by SRC. The set of specifications which SRC provided Dun & Bradstreet yielded more sample establishment records than were actually needed for the final study. The oversize sample permitted SRC to implement refinements of the stratification in a subsequent selection of the final study sample. Under the sample design, individual establishments were selected with a probability proportionate to annual sales for the most recent fiscal year (see Table 1.2).

All firms and establishments were assigned to one of five strata on the basis of annual sales: 1) Less than $50,000 in annual sales; 2) $50,000-499,999; 3) $500,000-5,000,000; 4) $5,000,000-99,000,000; and 5) annual sales of $100,000,000 or more. Within stratum 5, retailers with $700,000,000 or more in annual sales entered this sample with certainty. For stratum 1, the sample size was set disproportionately high to guarantee that a reasonable number of retail firms would be included so as to enhance analysis of smaller firms. In all other strata, firms and establishments were sampled systematically and with probabilities proportionate to annual sales. Prior to selecting the sample, the frame for each stratum was sorted first by SIC code and then by sales volume within SIC group. This systematic sampling procedure in conjunction with the ordered frame produces an implicit stratification of the sample by SIC group and sales within SIC group.

As a result, with the exception of stratum 1 and the self-representing firms of stratum 5, each sample selection represents a fixed, equal amount of sales dollars. Since stratum 1 establishments were sampled at a disproportionately higher rate, a compensating weight must be applied to stratum 1 observations before they are included in any cross-strata analysis. The value of this stratum 1 weight factor across strata analysis was 0.1. Simple stratum-by-stratum analysis of the data will yield unbiased study estimates. These estimates will implicitly introduce a "per dollar of retail sales" emphasis to the analysis of survey statistics.

Table 1.3 shows the original number of retailers selected and interview disposition within each of the 5 strata. Interviews were conducted with 713 retail firms at sole locations or headquarters with an overall response rate of 82%. Only among stratum 5 retailers was the response rate lower than the overall average. The largest retailers more frequently refused to grant an interview (often a matter of corporate policy), and were also more likely to delay the interview pending approval by corporate officials, thus resulting in an non-interview due to time constraints. Each interview was conducted by telephone with the person most knowledgeable about payment method costs at the sole or headquarters location.

The distribution by SIC code of retail firms which completed interviews is given in Table 1.4. Differences in annual sales volume and average transaction size are also shown for each type of retailer. Because of the importance of both total sales volume and average transaction size in determining payment method costs, most survey results are reported by these stratifications. The relationship between annual sales volume and average transaction size is shown in Table 1.5, which indicates little systematic association.

Sampling errors arise because only a fraction of the population is selected. The magnitude of the sampling error depends on the size of the sample, its stratification, and the magnitude of the reported percentage in question. In general, Table 1.6 indicates that, for the total sample, sampling errors greater than 4.0% will occur by chance in less than five cases out of one hundred.

2. PAYMENT METHODS ACCEPTED

In addition to cash, the vast majority of retailers accept payment by personal checks (96 percent) and third-party credit cards (82 percent). All three payment methods were accepted by 79 percent of all retailers (Table 2.1). Just one percent of all retailers included in this study accepted only cash in payment; an additional 15 percent accepted payment only by cash or personal check. In terms of the sales volume transacted by the different payment methods accepted, third-party credit cards accounted for just 10 percent of sales volume, compared with 30 percent each for cash and personal check payment. Cash payments accounted for a greater proportion of sales more among retailers with the smallest average transaction size, while personal checks and third-party credit cards accounted for higher proportions of sales among firms with the largest average transaction sizes.

Although personal checks and third-party credit cards were widely accepted, some retailers imposed limits on their use. Among all retailers that accepted personal checks, 51 percent reported that they imposed limits on their use, aside from requirements of proper identification (Table 2.2). The most common limitations involved acceptance of local checks only, and amounts equal to or a specified amount above the purchase (Table 2.3) Limits on the use of third-party credit cards were reported less frequently, by 25 percent of all retailers that accepted these credit cards. The major limitations involved the requirement of authorization from the credit card company, as well as limits on the purchase amount (both minimum and maximum). Limitations on either the use of personal checks or third-party credit cards were reported less frequently by retailers with the largest average transaction size.

3. PAYMENT METHOD COSTS

The various costs associated with the different methods of payment were neither clearly identified nor accurately measured by the majority of retailers studied. Only 14 percent of all retailers reported that they estimated or monitored cost differences for the various payment methods that they accepted (Table 3.1). Monitoring differences in payment method costs was least frequent among the retail firms with the smallest annual sales volume (5 percent) and most frequent among the largest firms (31 percent). But even among the largest retailers, only 17 percent reported monitoring all types of costs associated with the various payment methods they accepted.

Because few retailers maintain records of actual or estimated costs, the questionnaire was designed to elicit the necessary information through judgements made by the most knowledgeable representative of the retail firm. Multiple measures were devised to estimate overall costs for each payment method accepted, the most important cost components for each payment method, as well as method-by-method comparisons of the various types of costs associated with each payment method.

For the purposes of this study, costs associated with the acceptance of the various payment methods were categorized as follows:

Point-of-sales and accounting costs. This includes equipment and personnel costs for writing sales slips, making change, obtaining verification and approval for checks and credit cards, reconciling daily receipts, record keeping, and other point-of-sale costs.

Loss, theft, safekeeping and security costs. The second category of costs includes loss or theft of cash, bad or returned checks, credit card fraud, bonding and insurance fees, safekeeping and other security costs.

Deposit costs and fees paid to financial institutions. Included in the third category are bank service charges for deposits, costs to take the deposits to banks, and costs associated with the delayed receipt of funds. In addition, check verification and third-party credit card fees were measured separately.

Overall Cost Estimates

Estimates provided by retailers of the total costs incurred for each payment method accepted are given in Table 3.2. The costs incurred by retailers were lowest for cash payments (2.0%), somewhat higher for personal checks (2.5%), and highest for third-party cards (4.0%). Payment method costs are shown as a percentage of the average transaction size. The typical amount purchased was lowest when payment was made by cash ($25), compared with payments made by personal checks ($37) and third party credit cards ($40).

Most Important Costs

All retailers were asked to describe in their own words the most important cost associated with the various payment methods they accepted. When questioned about cash payments, 54 percent of all retailers mentioned point-of-purchase costs as the most important for accepting cash payments (Table 3.3). When questioned about costs for accepting personal checks, 42 percent of retailers mentioned point of purchase costs, while loss and security costs were mentioned by 23 percent, higher than for either cash or third-party credit cards (Table 3.4). Comparisons by retailer size, show that loss and security costs were more frequently mentioned by the largest retailers (34 percent) than by the smallest (18 percent). When asked about third-party credit cards the most important cost identified was credit card fees, mentioned by 43 percent of all retailers (Table 3.5). Point-of-purchase costs were mentioned as the most important for accepting third-party credit cards by 32 percent.

Method-by-Method Comparisons

Personal Checks Versus Cash. Among all retailers, 55 percent thought that overall costs for accepting personal checks were higher than for cash payments (Table 3.6). Just one percent rated overall costs for cash payments higher than for payments by personal check. The major factor involved higher loss and security costs for personal checks, cited by 56 percent of all retailers. The reported difference in loss and security costs was greatest among retailers with the largest annual sales volume and those with the lowest average transaction size. In terms of overall costs, the largest difference between checks and cash was recorded among retailers with annual sales volumes of $5 million or more, which resulted from both greater loss and security costs as well as more frequent instances of check verification fees.

Third Party Credit Cards Versus Cash. Among all retailers, 87 percent reported that overall costs for accepting payment by third-party credit cards were higher than for cash payments (Table 3.7). The major factors behind this cost differential were third party credit card fees as well as higher point-of-purchase costs for third-party cards, mentioned by 78 percent of all retailers. Differences in point of purchase costs were greatest among retailers with the smallest average transaction size, while third-party credit card fees were highest among retailers with the smallest annual sales volume.

Third-Party Credit Cards Versus Personal Checks. Among all retailers, 59 percent thought that payments made by third-party credit cards cost more than payments made by personal check, while 12 percent thought that third-party credit cards were less expensive than checks (Table 3.8). Somewhat higher point of purchase costs for third-party credit cards contributed to this difference, although the major underlying cost differences involved third-party credit card fees. Importantly, loss and security costs were more often judged lower than higher for third-party credit cards. Among retailers with the largest annual sales volume, the overall cost difference between third party credit cards and personal checks was the smallest, resulting from two off-setting trends: the largest volume retailers paid the lowest third-party credit card fees, but were also much more likely to pay check verification fees.

Overall Rankings. The most common ranking of costs for the different payment methods, reported by 31 percent of all retailers, placed third-party credit cards as most expensive, followed by personal checks, and cash payments as the least expensive (Table 3.9). An additional 25 percent of all retailers rated third-party credit cards more expensive than personal checks, with the cost of personal checks being equal to the costs incurred by cash payments. Combined, these two rank orders alone account for more than half of all responses (56 percent). Interestingly, the largest retailers in terms of sales volume were more likely to judge third-party credit cards and personal checks equally as expensive, and both more expensive than cash payment. Among all retailers that accepted cash, personal checks, and third-party credit cards, third-party credit cards were rated most expensive by 69 percent, whereas cash payments were rated least expensive by 79 percent (Table 3.10). In terms of overall costs, personal checks were more frequently rated least expensive among the smallest retailers, while the largest retailers more frequently rated personal checks as the most expensive. In terms of the individual cost categories, point of purchase costs were greatest for third-party credit cards, loss and security costs were greatest for personal checks, and financial and deposit costs were highest for third-party credit cards.

Acceptance Despite Costs

Given the relatively higher costs of accepting third-party credit cards, retailers were directly asked why it was worthwhile for their business to accept credit cards (Table 3.11). In response, retailers mentioned two major factors: credit cards provided a convenience that customers wanted (44 percent), and helped encourage sales (40 percent). The medium sized retailers and those that had the highest average transactions were somewhat more likely to mention customer convenience, while the largest retailers were somewhat more likely to mention that credit cards encouraged sales.

Retailers that did not accept any type of third party credit card were also asked why they chose to adopt this practice (Table 3.12). As might be expected, the most common reason given for not accepting third-party credit cards involved the associated fee and charges (54 percent). Importantly, the second most frequent response involved retailers' perceptions that there was insufficient or no demand for credit card use by their customers (35 percent).

4. CASH PREFERENCES AND CASH DISCOUNTS

Preferred Method of Payment

Each retailer surveyed was asked to identify which payment method they preferred their customer use for one additional sale as well as to accommodate an annual sales increase of 25 percent. In both cases, payment by cash was the overwhelming preference: 86 percent preferred payment by cash for an additional sale, and 83 percent preferred to have the additional sales by cash payment (Table 4.1). Cash was somewhat less frequently preferred by the largest retailers, and by retailers with the highest average transaction size. Payment by credit cards (both store and third-party) was somewhat more frequently preferred by the largest retailers, while payment by personal checks was somewhat more frequently preferred by retailers with the highest average transaction size.

The major reason, given by 74 percent of all retailers, for their preference for cash in payment involved the lessening of risk (Table 4.2). Other factors mentioned include avoidance of deposit and credit card fees (31 percent), better cash flow (24 percent), and less paperwork, and lower accounting and other costs (16 percent). When asked about a 25 percent sales volume increase, preferences for payments made by cash were still based, but less frequently, on lower risk (46 percent), and, more frequently, on cash flow advantages (33 percent). Overall, preferences for payments made by personal check were justified by lessened risk as frequently as were preferences for cash. In addition, preferences for personal checks drew more references to lower costs.

Cash Discounts

Among all retailers, 10 percent now offer discounts to customers for payment in cash instead of credit cards (Table 4.3). Among retailers that now offer discounts, the median discount offered was 4.0%, which was received by 50 percent of all their customers. Most retail firms offered the discount for payment both in cash and by personal check, the discount being given automatically to all customers. The size of the discount was most frequently determined by the cost of credit card sales (Table 4.4). Interestingly, the most common assessment of the discount was that it left overall costs and overall sales volume unchanged. Discounts were offered somewhat more frequently by retailers with the smallest average transaction size as well as among retailers in the middle annual sales volume category.

Among retailers that now offer cash discounts, the majority were either gasoline service stations (39 percent) or furniture stores (27 percent). Competitive pressures played an important role in whether retailers currently offer discounts for cash payment. Among retailers that now offer cash discounts, 68 percent reported that some or all of their competitors also offered discounts (Table 4.7). In sharp contrast, among retailers that do not offer discounts for cash payments, just 10 percent of their competitors now offer discounts.

In comparison with the proportion that now offers discounts, more than twice as many either had discontinued offering cash discounts (4 percent) or after explicit consideration had decided not to offer discounts (18 percent). The most common reasons given for discontinuing or deciding against offering cash discounts involved explicit references to decreased profits, decreased sales, or increased costs (Table 4.5). Retailers with the largest annual sales volumes were somewhat more likely to have decided against offering discounts for payments in cash.

5. ATTITUDES TOWARD DISCOUNTS AND SURCHARGES

When retailers were asked their opinions about offering a discount to customers that paid using cash instead of a credit card, the majority (57 percent) thought offering cash discounts was a bad idea (Table 5.1). This unfavorable attitude toward cash discounts was widespread across retailers with different sales volumes and average transactions sizes. The most frequent reason given by retailers for their unfavorable view of cash discounts involved their perceptions that customers would not like its introduction (21 percent) or that it would decrease sales (7 percent). In addition, retailers also mentioned that a discount for cash payments would decrease profits (15 percent), or increase costs (13 percent). Among retailers that favored offering discounts for cash, the most common reason was that it would decrease costs (15 percent) or increase profits (6 percent). In addition, some retailers thought that customers would prefer the discount (9 percent), or that sales would increase (8 percent).

Retailers were also asked about their opinions toward adding an extra fee or surcharge when customers used credit cards to make purchases. Among all retailers, 71 percent thought that a surcharge for credit card purchases was a bad idea (Table 5.2). The major reasons given for this view involved their perceptions that customers would not like the surcharge (39 percent) or that it would decrease sales (23 percent). Among retailers that thought surcharges for credit purchases was a good idea, the most common reasoning involved the normative response that customers should pay the cost (18 percent).

In addition to the specific questions on discounts and surcharges, retailers also were asked whether they would prefer to use a cash discount, a credit surcharge, or neither (Table 5.3). In response, the most common answer given by retailers was that they would prefer that neither be implemented (47 percent). Offering a discount for cash payments was somewhat more frequently preferred (29 percent) than a surcharge for credit use (22 percent).

TABLE 1.1

SURVEY COVERAGE OF RETAIL FIRMS

SIC Code		Survey Coverage Included	Survey Coverage Excluded
52	BUILDING MATERIALS & GARDEN SUPPLIES		
521	Lumber and Other Building Materials	X	
523	Paint, Glass, and Wallpaper Stores	X	
525	Hardware Stores	X	
526	Retail Nurseries and Garden Stores	X	
527	Mobile Home Dealers		X
53	GENERAL MERCHANDISE STORES		
531	Department Stores	X	
533	Variety Stores	X	
539	Misc. General Merchandise Stores	X	
54	FOOD STORES		
541	Grocery Stores		X
542	Meat Markets and Freezer Provisioners		X
543	Fruit Stores and Vegetable Markets		X
544	Candy, Nut, and Confectionery Stores		X
545	Dairy Product Stores		X
546	Retail Bakeries		X
549	Miscellaneous Food Stores		X
55	AUTOMOTIVE DEALERS & SERVICE STATIONS		
551	New and Used Car Dealers		X
552	Used Car Dealers		X
553	Auto and Home Supply Stores	X	
554	Gasoline Service Stations	X	
555	Boat Dealers		X
556	Recreation & Utility Trailer Dealers		X
557	Motorcycle Dealers		X
559	Automotive Dealers, nec		X

TABLE 1.1 (continued)

SIC Code		Survey Coverage	
		Included	Excluded
56	APPAREL AND ACCESSORY STORES		
561	Men's & Boys' Clothing & Furnishings	X	
562	Women's Ready-to-Wear Stores	X	
563	Women's Accessory and Specialty Stores	X	
564	Children's and Infants' Wear Stores	X	
565	Family Clothing Stores	X	
56	APPAREL AND ACCESSORY STORES (continued)		
566	Shoe Stores	X	
568	Furriers and Fur Shops	X	
569	Miscellaneous Apparal & Accessories	X	
57	FURNITURE AND HOME FURNISHINGS STORES		
571	Furniture and Home Furnishings Stores	X	
572	Household Appliance Stores	X	
573	Radio, Television, and Music Stores	X	
58	EATING AND DRINKING PLACES		
581	Eating and drinking places		X
59	MISCELLANEOUS RETAIL		
591	Drug Stores and Propietary Stores	X	
592	Liquor Stores		X
593	Used Merchandise Stores		X
594	Miscellaneous Shopping Goods Stores	X	
5961	Mail Order Houses	X	
5962	Merchandising Machine Operators		X
5963	Direct Selling Organizations		X
5982	Ice Dealers		X
5983	Fuel Oil Dealers	X	
5984	Liquified Petroleum Dealers	X	
5992	Florists	X	
5993	Cigar Stores		X
5994	Newsstands		X
5999	Miscellaneous		X

TABLE 1.2

TOTAL ANNUAL SALES AND TOTAL ESTABLISHMENTS BY SALES CATEGORY FOR ALL RETAIL WITH PAYROLL, STUDY RETAIL WITH PAYROLL AND ALL STUDY RETAIL ESTABLISHMENTS[1]

Annual Sales (In $1000's)	Retail w/Payroll		Study Retail w/Payroll		Study Retail All Establishments	
	Amount	Cumulative Percent	Amount	Cumulative Percent	Amount	Cumulative Percent
	Total Sales (In millions of dollars)					
< 10	742	.1	20	-	355	.1
10 - 20	1,562	.3	117	-	698	.3
20 - 30	2,145	.7	344	.3	935	.6
30 - 50	5,607	1.5	1,299	.7	2,378	1.4
50 - 100	17,722	4.1	5,682	2.5	7,718	3.8
100 - 300	80,917	15.9	42,209	16.1	45,018	18.0
300 - 500	65,854	25.5	39,526	28.9	40,187	30.6
500 - 1000	87,618	38.4	53,829	46.3	53,829	47.5
1000 - 2000	77,868	49.8	40,971	59.5	40,972	60.4
2000 - 5000	126,552	68.3	41,088	72.8	41,088	73.3
5000+	216,752	100.0	84,770	100.0	84,769	100.0
Total	683,339	100.0	309,855	100.0	317,947	100.0
	Total Establishments					
< 10	5,708	.5	2,999	.5	64,714	8.1
10 - 20	17,585	2.1	7,656	1.8	49,393	14.3
20 - 30	30,816	4.8	13,890	4.2	38,280	19.2
30 - 50	75,626	11.6	32,700	9.7	60,782	26.8
50 - 100	175,406	27.3	77,562	22.8	106,710	40.2
100 - 300	400,119	63.0	223,331	60.6	241,470	70.6
300 - 500	167,407	78.0	102,740	78.0	104,494	83.7
500 - 1000	127,404	89.4	78,427	91.3	78,427	93.5
1000 - 2000	56,443	94.4	30,179	96.4	30,179	97.3
2000 - 5000	40,350	98.1	13,990	98.8	13,990	99.1
5000+	21,741	100.0	7,129	100.0	7,129	100.0
Total	1,118,605	100.0	590,603	100.0	795,568	100.0

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[1] Statistics from the 1977 Census of Retail Trade, U.S. Department of Commerce.

TABLE 1.3

SAMPLE SIZE AND RESPONSE RATES

Stratum	Total Sample Number	Total Sample Rate	Completed Interviews Number	Completed Interviews Rate	Refusals Number	Refusals Rate	Non-Interviews Number	Non-Interviews Rate
1	76	100%	63	83%	5	7%	8	10%
2	245	100%	203	83%	17	7%	25	10%
3	367	100%	302	82%	28	8%	37	10%
4	118	100%	97	82%	7	6%	14	12%
5	68	100%	48	71%	9	13%	11	16%
Total	874	100%	713	82%	66	7%	95	11%

TABLE 1.4

TYPES OF RETAIL ESTABLISHMENTS INCLUDED IN THE SURVEY

		Annual Sales Volume (thousands)			Average Transaction Size		
	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Building materials & garden supplies [5211,5231,5251,5261]	16%	9%	23%	11%	20%	13%	16%
General merchandise stores [5311,5331,5399]	10	7	4	26	14	15	2
Auto & home supply stores [5531]	5	6	5	3	4	4	5
Gasoline service stations [5541]	14	12	14	15	23	17	3
Apparel & accessory stores [5611,5621,5631,5641,5651, 5661,5699]	11	15	9	12	2	21	13
Furniture & home furnishings stores [5712,5713,5714, 5719,5722,5732,5733]	19	21	21	10	5	6	38
Drug stores & proprietary stores [5912]	7	8	7	6	17	3	*
Miscellaneous shopping goods stores [5941,5942,5943,5944, 5945,5946,5947,5949]	12	17	11	8	11	14	12
Mail order houses [5961]	1	1	*	3	1	1	1
Fuel oil dealers [5983]	3	1	3	5	2	1	7
Liquified petroelum gas dealers [5984]	1	1	1	1	*	2	1
Florists [5992]	1	2	2	*	1	3	2
Total	100%	100%	100%	100%	100%	100%	100%
Cases	713	266	302	145	240	195	205

TABLE 1.5

CORRELATION OF ANNUAL SALES VOLUME AND AVERAGE TRANSACTION SIZE

	Annual Sales Volume (thousands)				
Average Transaction Size	Less than $500	$500-$5,000	More than $5,000	Total	Cases
Less than $20	11%	14%	7%	32%	240
$20-50	9	10	8	27	195
More than $50	9	17	5	31	205
Don't know	3	5	2	10	73
Total	32	46	22	100%	
Cases	266	302	145		713

TABLE 1.6

APPROXIMATE STANDARD ERRORS OF A SIMPLE RANDOM SAMPLE*

(In percentages by size of total sample and sales volume strata)

Sales Volume Strata (thousands)	Number of Interviews	Reported Percentages				
		50	30 or 70	20 or 80	10 or 90	5 or 95
All	713	3.8	3.4	3.0	2.2	1.6
$500-5,000	302	5.8	5.2	4.6	3.4	2.6
Less than $500	266	6.2	5.6	5.0	3.6	2.6
More than $5,000	145	8.4	7.6	6.6	5.0	3.6

*The figures in this table represent two stnadard errors. For a simple random sample the chances are 95 out of 100 that the value being estimated lies within a range equal to the reported percentage, plus or minus two standard errors.

APPROXIMATE SAMPLING DESIGN EFFECT OF STRATIFIED RANDOM SAMPLE WITH WEIGHTS*

Sales Volume Strata (thousands)	Approximate Sampling Design Effect
All	1.03
Less than $500	1.12
$500-5,000	1.00
More than $5,000	1.00

*The figures in this table represent constant factors which should be multiplied by the standard error estimates in the table above for the corresponding strata to yield an improved approximation of the standard errors for a stratified random sample with weights.

APPROXIMATE STANDARD ERRORS OF SURVEY FINDINGS*

(In percentages by size of total sample and sales volume strata)

Sales Volume Strata (thousands)	Number of Interviews	Reported Percentages				
		50	30 or 70	20 or 80	10 or 90	5 or 95
All	713	3.9	3.5	3.1	2.3	1.6
$500-5,000	302	6.5	5.8	5.2	3.8	2.9
Less than $500	266	6.2	5.6	5.0	3.6	2.6
More than $5,000	145	8.4	7.6	6.6	5.0	3.6

*The figures in this table represent two standard errors multipled by a design effect factor. Hence for the stratified random sample used in this study, the chances are 95 out of 100 that the value being estimated lies within a range equal to the reported percentage, plus or minus two standard errors.

TABLE 2.1

TYPES OF PAYMENT METHODS ACCEPTED

		Annual Sales Volume (thousands)			Average Transaction Size		
	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Cash							
Accept	100%	99%	100%	100%	100%	100%	100%
1-33% sales	51	43	57	50	37	49	66
34-66% sales	32	37	32	25	35	37	27
67-100% sales	15	17	11	22	28	14	7
DK % sales	2	2	*	3	*	*	*
(Median % Sales)	(30)	(40)	(30)	(31)	(43)	(33)	(25)
Do not accept	*	1	*	*	*	*	*
Total	100%	100%	100%	100%	100%	100%	100%
Cases	713	266	302	145	240	195	205
Personal Checks							
Accept	96%	98%	97%	93%	94%	97%	99%
1-33% sales	53	52	53	57	66	60	39
34-66% sales	30	32	32	22	24	30	37
67-100% sales	11	12	11	11	3	6	23
DK % Sales	2	2	1	3	1	1	*
(Median % Sales)	(30)	(30)	(30)	(25)	(20)	(25)	(40)
Do not accept	4	2	3	7	6	3	1
Total	100%	100%	100%	100%	100%	100%	100%
Cases	713	266	302	145	240	195	205
Third Party Credit Card							
Accept	82%	78%	81%	87%	80%	87%	81%
1-33% sales	71	70	68	79	77	72	68
34-66% sales	9	6	12	6	3	14	11
67-100% sales	1	1	1	1	*	1	2
DK % sales	1	1	*	1	*	*	*
(Median % sales)	(10)	(10)	(10)	(10)	(6)	(15)	(15)
Do not accept	18	22	19	13	20	13	19
Total	100%	100%	100%	100%	100%	100%	100%
Cases	713	266	302	145	240	195	205
Store Credit Cards							
Accept	11%	8%	7%	26%	12%	19%	6%
1-33% sales	5	6	3	10	9	6	3
34-66% sales	5	2	3	14	3	11	3
67-100% sales	1	*	1	1	*	2	*
DK % sales	*	*	*	1	*	*	*
(Median % Sales)	(34)	(25)	(40)	(42)	(20)	(46)	(35)
Do not accept	89	91	93	74	88	81	94
Total	100%	100%	100%	100%	100%	100%	100%
Cases	713	266	302	145	240	195	205

TABLE 2.1 (continued)

		Annual Sales Volume (thousands)			Average Transaction Size		
Other Payment Methods	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Accept	50%	44%	58%	47%	60%	45%	49%
1-33% sales	34	33	36	34	36	32	38
34-66% sales	9	7	11	6	10	6	10
67-100% sales	5	1	9	4	11	3	1
DK % sales	2	3	2	3	3	4	*
(Median % Sales)	(20)	(15)	(20)	(7)	(25)	(10)	(10)
Do not accept	50	56	42	53	40	55	51
Total	100%	100%	100%	100%	100%	100%	100%
Cases	713	266	302	145	240	195	205
Other Payment Methods Accepted							
Store credit plan (no card issued)	37%						
Business check, money order, traveler's check	4						
Bank, finance company	4						
Layaway	4						
Other	5						
No other method accepted	50						
Total	a						
Cases	713						
Combinations of Payment Methods Accepted[1]							
Cash only	1	*	1	3	2	*	*
Cash & Check only	15	21	16	6	15	10	18
Cash, Check & 3rd-Party Credit Card	70	68	75	64	68	68	75
Cash, Check, & Store Credit Card	2	1	1	3	2	3	1
Cash, Check & Both Store & 3rd-Party Credit Card	9	8	5	20	9	16	5
Cash & Any Credit Card (no check)	3	2	2	4	4	3	1
Total	100%	100%	100%	100%	100%	100%	100%
Cases	713	266	302	145	240	195	205

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*Less than .01 percent.

[1] Excludes payment methods other than cash, checks, and credit cards.

[a] May add to more than 100% due to multiple mentions.

(See next page for questions asked)

TABLE 2.1 (continued)

The questions were: "We are interested in the various means that customers use to buy merchandise from your business--such as cash, checks, or credit cards.

"First, I assume that you accept cash in payment. Is that correct?"

"Do you ordinarily accept personal checks in payment for merchandise?"

"Do you issue your own store credit card or use a 'private label' credit card with the store name on it?"

"Does your business accept any other credit cards for payment, such as VISA, Mastercard, American Express, or similar credit cards?"

"Are there any other methods of payment a customer can use to pay for purchases from your business?"

"Thinking about the total sales volume, what proportion is transacted by each of the payment methods you accept? First, what proportion of total sales is transacted using... (cash/personal checks, store credit cards/other credit cards/other methods of payment)?"

TABLE 2.2

LIMITS ON POLICY OF ACCEPTING PAYMENT METHODS

		Annual Sales Volume (thousands)			Average Transaction Size		
Limits on:	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Personal Checks							
Yes	51%	53%	43%	66%	60%	59%	39%
No	49	47	57	32	40	41	61
DK, NA	*	*	*	1	*	*	*
Total	100%	100%	100%	100%	100%	100%	100%
Cases	684	257	292	135	222	190	204
Third-Party Credit Cards							
Yes	25%	25%	24%	27%	33%	25%	17%
No	75	74	76	73	67	75	83
DK, NA	*	1	*	*	*	*	*
Total	100%	100%	100%	100%	100%	100%	100%
Cases	559	186	246	127	182	164	163

The questions asked were: "Aside from requirements of proper identification, are there any limits to the policy of accepting personal checks?" "Aside from requirements of verification and proper identification, are there any limits on the use of the other credit cards you accept?"

TABLE 2.3

LIMITS ON POLICY OF ACCEPTING CHECKS OR THIRD PARTY CREDIT CARDS
(Among retailers that impose limits)

Limits	Check	Third Party Card
Authorization Within Establishment:	70%	7%
Personal knowledge of customer required	18	1
Approval needed when purchase is over specified amount	3	3
Checks:		
First party only	9	1
Local only	32	*
Other	8	2
Authorization Outside Establishment:	16%	54%
When purchase is over specified amount	5	41
Other	11	13
Limit on Amount of Purchase	38%	34%
Maximum	12	13
Minimum	2	16
Exact amount or specified amount above purchases	24	5
Limits on type of purchase	1	4
Other	8	7
NA	2	1
Total	a	a
Cases	345	140

---

*Less than 0.5 percent.

NA = not applicable.

The questions were: "Aside from requirements of proper identification, are there any limits to the policy of accepting personal checks?" "Aside from requirements of verification and proper identification, are there any limits on the use of the other credit cards you accept?"

[a] May add to more than 100% due to multiple mentions.

TABLE 2.4

PAYMENT METHODS ACCEPTED BY COMPETITORS

		Annual Sales Volume (thousands)			Average Transaction Size		
Competitors Accept Personal Checks	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Yes	86%	86%	83%	90%	81%	87%	90%
Some accept	3	3	3	3	4	3	2
No	6	5	7	5	10	5	3
DK, NA	5	6	7	2	5	5	5
Total	100%	100%	100%	100%	100%	100%	100%
Cases	713	266	302	145	240	195	205
Competitors Accept Credit Cards							
Yes	81%	75%	81%	89%	76%	90%	81%
Some accept	5	6	5	6	8	3	6
No	9	13	8	4	12	5	10
DK, NA	5	6	6	1	4	2	3
Total	100%	100%	100%	100%	100%	100%	100%
Cases	713	266	302	145	240	195	205

The questions were: "Do you main competitors for customer sales generally accept personal checks in payment for merchandise?" "Do your main competitors accept any credit cards in payment for merchandise?"

TABLE 3.1

MONITORING PAYMENT METHOD COSTS

Monitor Payment Method Cost Differences	All	Annual Sales Volume (thousands)			Average Transaction Size		
		Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Yes	14%	5%	13%	31%	15%	17%	11%
Point-of-sales and accounting	8	3	7	19	7	12	6
Loss and security	10	2	8	27	10	15	7
Deposit and financial	11	3	9	26	12	15	6
Monitors all three types	7	1	6	17	6	11	4
No	85	94	87	68	82	83	88
Don't know	1	1	*	1	2	*	1
Total	100%	100%	100%	100%	100%	100%	100%
Cases	713	264	300	141	234	194	205

The questions were: "Does your business estimate or monitor cost differences for the various payment methods you accept?" "Does your business estimate or monitor differences in point-of-sale and accounting costs?" "Does your business estimate or monitor differences in loss and security costs?" "Does your business estimate or monitor differences in deposit costs and financial fees?"

TABLE 3.2

MEDIAN TRANSACTION SIZE AND MEDIAN COST OF ACCEPTING VARIOUS METHODS OF PAYMENT

		Annual Sales Volume (thousands)			Average Transaction Size		
Cash	All	Less than $50	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Median Percent of Sales	30%	40%	30%	31%	43%	33%	25%
Median Transaction Size	$25	$20	$30	$25	$10	$25	$150
Median Percentage Cost	2.0%	2.0%	2.8%	2.0%	2.0%	2.0%	2.0%
Cases	640	238	271	131	228	191	203
Check							
Median Percent of Sales	30%	30%	30%	25%	20%	25%	40%
Median Transaction Size	$37	$28	$50	$35	$15	$34	$200
Median Percentage Cost	2.5%	2.0%	3.0%	3.0%	2.5%	3.0%	2.3%
Cases	610	234	259	117	215	182	197
Third Party Card							
Median Percent of Sales	10%	10%	10%	10%	6%	15%	15%
Median Transaction Size	$40	$30	$50	$40	$20	$40	$150
Median Percentage Cost	4.0%	3.5%	4.0%	4.0%	3.5%	4.0%	3.6%
Cases	514	171	226	117	184	161	159
Overall Transaction Size[1]							
Median	$28	$25	$31	$25	$11	$29	$170

---

[1] Overall transaction size calculated from average transaction size for each payment method accepted, weighted by the associated percentage of sales volume.

The questions were: "At your business, what is the average dollar amount of a typical size cash transaction?"

"Thinking of all costs to your business from accepting payment by cash--what would you say is the average cost for this typical size transaction?"

"What is the average dollar amount of a typical transaction paid by personal check?"

"Thinking of all costs to your business from accepting payment by personal checks--what would you say is the average cost for this typical size transaction?"

TABLE 3.3

MOST IMPORTANT COST OF ACCEPTING CASH

		Annual Sales Volume (thousands)			Average Transaction Size		
Cost Categories	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Point of Purchase	54%	49%	54%	61%	50%	62%	57%
Personnel, equipment	42	40	43	43	38	49	46
Other	12	9	11	18	12	13	11
Loss and Security	11	8	11	17	13	9	11
Theft, fraud	5	6	6	4	5	5	5
Other	6	2	5	13	8	4	6
Deposit and Financial	9	12	7	3	10	9	7
Deposit fees	2	1	2	1	2	2	1
Other	7	11	5	2	8	7	6
Credit Card Fees	--	--	--	--	--	--	--
Check Verification Fees	--	--	--	--	--	--	--
Other Costs	3	3	4	4	5	3	2
No Costs	12	13	14	8	12	10	14
Don't know, NA	11	15	10	7	10	7	9
Total	100%	100%	100%	100%	100%	100%	100%
Cases	703	263	299	141	236	192	205

The question was: "What is the most important cost to your business for accepting cash payments?"

TABLE 3.4

MOST IMPORTANT COST OF ACCEPTING PERSONAL CHECKS

		Annual Sales Volume (thousands)			Average Transaction Size		
Cost Categories	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Point of Purchase	42%	42%	42%	43%	42%	46%	42%
Personnel, equipment	35	36	35	34	35	36	36
Other	7	6	7	9	7	10	6
Loss and Security	23	18	22	34	26	27	19
Theft, fraud	22	17	22	32	25	26	18
Other	1	1	*	2	1	1	1
Deposit and Financial	10	14	8	10	13	8	12
Deposit fees	4	5	3	6	6	4	4
Other	6	9	5	4	7	4	8
Credit Card Fees	--	--	--	--	--	--	--
Check Verification Fees	4	4	5	2	3	2	7
Other Costs	3	1	4	5	3	3	3
No Costs	8	9	9	2	5	6	10
Don't know, NA	10	12	10	4	8	8	7
Total	100%	100%	100%	100%	100%	100%	100%
Cases	684	257	292	135	242	193	205

---

*Less than 0.5 percent.

The question was: "What is the most important cost to your business for accepting payments by personal check?"

TABLE 3.5

MOST IMPORTANT COST OF ACCEPTING THIRD-PARTY CREDIT CARDS

		Annual Sales Volume (thousands)			Average Transaction Size		
Cost Categories	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Point of Purchase	32%	30%	33%	34%	31%	36%	31%
Personnel, equipment	27	25	28	28	25	31	28
Other	5	5	5	6	6	5	3
Loss and Security	1	1	1	3	2	3	1
Theft, fraud	1	1	1	2	2	2	1
Other	*	*	*	1	*	1	*
Deposit and Financial	13	15	12	9	11	14	14
Deposit fees	11	13	10	9	10	11	12
Other	2	2	2	*	1	3	2
Credit Card Fees	43	41	44	44	41	41	47
Check Verification Fees	--	--	--	--	--	--	--
Other Costs	2	1	3	3	1	2	1
No Costs	1	1	1	1	2	*	1
Don't know, NA	8	11	6	6	12	4	5
Total	100%	100%	100%	100%	100%	100%	100%
Cases	559	186	246	127	188	160	161

---

*Less than 0.5 percent.

The question was: "What is the most important cost to your business for accepting payment by credit cards?"

TABLE 3.6

PERSONAL CHECKS VERSUS CASH COST COMPARISON

(Among retailers that accept cash and check payments)

		Annual Sales Volume (thousands)			Average Transaction Size		
Overall Cost Comparison	**All**	**Less than $500**	**$500-$5,000**	**More than $5,000**	**Less than $20**	**$20-50**	**More than $50**
Checks more	55%	48%	52%	74%	67%	57%	43%
Checks same	43	52	46	21	32	39	54
Checks less	1	*	1	4	1	2	3
DK, NA	1	*	1	1	*	2	*
Total	100%	100%	100%	100%	100%	100%	100%
Cases	693	259	295	139	232	189	202
Point of Purchase Costs							
Checks more	39%	27%	38%	60%	48%	40%	27%
Checks same	59	70	60	39	51	58	69
Checks less	2	3	2	1	1	2	4
DK, NA	*	*	*	*	*	*	*
Total	100%	100%	100%	100%	100%	100%	100%
Cases	693	259	295	139	232	189	202
Loss and Security Costs							
Checks more	56%	47%	54%	74%	67%	56%	47%
Checks same	41	50	44	22	31	39	51
Checks less	2	2	2	3	1	5	2
DK, NA	1	1	*	1	1	*	*
Total	100%	100%	100%	100%	100%	100%	100%
Cases	693	259	295	139	232	189	202
Deposit and Financial Costs (excludes check verification fees)							
Checks more	34%	29%	28%	54%	38%	42%	26%
Checks same	65	70	71	45	61	56	74
Checks less	1	1	1	*	1	1	*
DK, NA	*	*	*	1	*	1	*
Total	100%	100%	100%	100%	100%	100%	100%
Cases	693	259	295	139	232	189	202

TABLE 3.6 (continued)

		Annual Sales Volume (thousands)			Average Transaction Size		
Check Verification Fees	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Percent paying	12%	6%	11%	23%	7%	18%	12%
Median fee	3.0%	3.0%	3.0%	2.5%	2.5%	2.6%	3.0%

The questions were: The next several questions deal with the costs to merchants for accepting various methods of payment. For this study, we have grouped these costs under three broad categories.

The first category is point-of-sales and accounting costs.
The second category involves loss, theft, safekeeping and security costs.
The third category includes deposit costs and fees paid to financial institutions.

Consider first just the category of point-of-sales and accounting costs. This includes equipment and personnel costs for writing sales slips, making change, obtaining verification and approval for checks and credit cards, reconciling daily receipts, record keeping, and other point-of-sale costs you may have.

"Considering just these costs, do payments made by (personal checks/credit cards) cost your business more, less, or generally about the same as (cash payments/ personal checks) for the typical size transaction?" "By about what percent are point-of-sale and accounting costs for (personal checks/credit cards) (higher/ lower) than for (cash payments/personal checks)?"

The next category of costs includes loss or theft of cash, bad or returned checks, credit card fraud, bonding and insurance fees, safekeeping and other security costs.

"Considering just these costs, do payments made by (personal checks/credit cards) cost your business more, less, or generally about the same as (cash payments/ personal checks) for the typical size transaction?" "By about what percent are loss and security costs for personal checks/credit cards) (higher/lower) than for (cash payments/personal checks)?"

Included in the third category are bank service charges for deposits, costs to take the deposits to banks, and costs associated with the delayed receipt of funds.

"Considering the other deposit and financial costs (except check verification fees and credit card fees) do payments made by (personal checks/credit cards) cost your business more, less, or generally about the same as (cash payments/ personal checks) for the typical size transaction?" "By about what percent are deposit and financial costs for (personal checks/credit cards) (higher/lower) than for (cash payments/personal checks)?"

Now, consider all the costs to your business for accepting different methods of payment (including credit card and check verification fees). Overall, do payments made by (personal checks/credit cards) cost your business more, less, or generally about the same as (cash payments/personal checks) for the typical size transaction?" "By about what percent are all these costs for (personal checks/credit cards) (higher/lower) than for cash payments?"

"Does your business pay a fee for verification or guarantee of personal checks?" "How much is the fee?" "On most credit cards other than store cards, the merchant pays a percentage of each.

TABLE 3.7

THIRD-PARTY CREDIT CARDS VERSUS CASH COST COMPARISON

(Among retailers that accept cash and third-party credit cards)

		Annual Sales Volume (thousands)			Average Transaction Size		
Overall Cost Comparison	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Cards more	87%	85%	88%	89%	90%	89%	82%
Cards same	11	14	10	10	9	10	16
Cards less	1	1	1	*	*	1	1
DK, NA	1	*	1	1	1	*	1
Total	100%	100%	100%	100%	100%	100%	100%
Cases	559	186	246	127	186	162	161
Point of Purchase Costs							
Cards more	78%	76%	79%	80%	83%	79%	72%
Cards same	21	22	20	18	16	19	26
Cards less	1	1	1	2	*	2	2
DK, NA	*	1	*	*	1	*	*
Total	100%	100%	100%	100%	100%	100%	100%
Cases	559	186	246	127	186	162	161
Loss and Security Costs							
Cards more	40%	36%	36%	54%	41%	45%	39%
Cards same	54	61	59	36	55	48	57
Cards less	5	2	5	9	3	7	4
DK, NA	1	1	*	1	1	*	*
Total	100%	100%	100%	100%	100%	100%	100%
Cases	559	186	246	127	186	162	161
Deposit and Financial Costs (Excludes credit card fees)							
Cards more	44%	47%	40%	45%	45%	41%	45%
Cards same	54	51	60	49	52	57	53
Cards less	2	1	*	6	2	2	2
DK, NA	*	1	*	*	1	*	*
Total	100%	100%	100%	100%	100%	100%	100%
Cases	559	186	246	127	186	162	161
Third-Party Credit Card							
Median fee	3.0%	3.4%	3.0%	2.5%	3.0%	3.0%	3.0%

For question wording, see Table 2.1.

TABLE 3.8

THIRD-PARTY CREDIT CARDS VERSUS PERSONAL CHECK COST COMPARISON

(Among retailers that accept checks and third-party credit cards)

		Annual Sales Volume (thousands)			Average Transaction Size		
Overall Cost Comparison	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Cards more	59%	65%	59%	51%	59%	58%	60%
Cards same	27	23	27	32	25	27	30
Cards less	12	11	12	16	15	14	9
DK, NA	2	1	2	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%
Cases	468	266	217	93	161	129	148
Point of Purchase Costs							
Cards more	53%	52%	57%	46%	57%	51%	52%
Cards same	37	39	34	41	32	38	39
Cards less	10	8	9	13	11	11	8
DK, NA	*	1	1	*	*	*	1
Total	100%	100%	100%	100%	100%	100%	100%
Cases	483	165	225	93	161	129	148
Loss and Security Costs							
Cards more	20%	19%	20%	20%	22%	17%	23%
Cards same	47	54	46	37	43	48	44
Cards less	33	26	34	42	35	34	32
DK, NA	*	1	*	1	*	1	1
Total	100%	100%	100%	100%	100%	100%	100%
Cases	483	165	225	93	161	129	148
Deposit and Financial Costs (Excludes check verification and credit card fees)							
Cards more	25%	29%	23%	24%	29%	18%	30%
Cards same	62	58	67	59	58	66	62
Cards less	12	11	10	17	13	16	7
DK, NA	1	2	*	*	*	*	1
Total	100%	100%	100%	100%	100%	100%	100%
Cases	483	165	225	93	161	129	148
Third-Party Credit Card							
Median fee	3.0%	3.4%	3.0%	2.5%	3.0%	3.0%	3.0%
Check Verfication							
Percent paying	12%	6%	11%	23%	7%	18%	12%
Median fee	3.0%	3.0%	3.0%	2.5%	2.5%	2.6%	3.0%

For question wording, see Table 2.1.

TABLE 3.9

RANK ORDER OF PAYMENT METHOD COSTS
(Among retailers that accept cash, checks, and third-party cards)

		Annual Sales Volume (thousands)			Average Transaction Size		
Overall Costs	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Card > Check > Cash	31%	33%	28%	38%	40%	30%	23%
Card > Check = Cash	25	33	28	5	18	25	32
Card = Check > Cash	12	7	12	16	13	11	12
Card = Check = Cash	7	6	8	9	4	7	11
Card > Cash > Check	1	*	*	3	*	1	1
Card = Cash > Check	*	*	*	1	*	*	1
Check > Card > Cash	10	7	10	15	13	13	5
Check > Card = Cash	1	2	*	*	1	1	1
Check > Cash > Card	*	*	*	*	*	*	1
Check = Cash > Card	*	*	*	*	*	*	*
Cash > Check > Card	*	*	*	*	*	*	*
Cash > Check = Card	*	*	*	*	*	*	1
Cash > Card > Check	*	*	*	*	*	*	*
Missing data; inconsistent ranking	13	12	13	13	11	12	12
Total	100%	100%	100%	100%	100%	100%	100%
Cases	483	165	225	93	161	129	148
Point of Purchase Costs							
Card > Check > Cash	19%	14%	21%	22%	25%	16%	15%
Card > Check = Cash	31	36	33	19	29	34	33
Card = Check > Cash	13	9	10	27	16	15	7
Card = Check = Cash	15	18	14	11	10	12	22
Card > Cash > Check	1	1	1	2	*	1	3
Card = Cash > Check	*	*	*	*	*	*	*
Check > Card > Cash	6	6	4	9	7	7	3
Check > Card = Cash	2	1	3	3	1	3	3
Check > Cash > Card	*	1	*	*	*	*	1
Check = Cash > Card	*	*	*	1	*	1	*
Cash > Check > Card	*	*	*	*	*	*	*
Cash > Check = Card	*	*	1	*	*	*	1
Cash > Card > Check	*	*	*	*	*	*	*
Missing data; inconsistent ranking	13	14	13	6	12	12	12
Total	100%	100%	100%	100%	100%	100%	100%
Cases	483	165	225	93	161	129	148

TABLE 3.9 (continued)

		Annual Sales Volume (thousands)			Average Transaction Size		
Loss and Security Costs	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Card > Check > Cash	9%	8%	8%	12%	12%	4%	12%
Card > Check = Cash	6	7	7	2	5	6	7
Card = Check > Cash	8	8	6	14	10	12	5
Card = Check = Cash	24	27	26	13	19	21	27
Card > Cash > Check	1	1	1	1	*	2	*
Card = Cash > Check	*	*	*	1	*	*	1
Check > Card > Cash	12	5	12	22	11	16	8
Check > Card = Cash	17	16	17	16	21	11	18
Check > Cash > Card	1	1	1	1	1	2	1
Check = Cash > Card	1	1	*	2	*	*	2
Cash > Check > Card	*	1	*	*	*	1	*
Cash > Check = Card	1	*	1	1	1	*	1
Cash > Card > Check	*	*	*	*	*	*	*
Missing data; inconsistent ranking	20	25	21	15	20	25	18
Total	100%	100%	100%	100%	100%	100%	100%
Cases	483	165	225	93	161	129	148
Financial and Deposit Costs (excludes check verification and credit card fees)							
Card > Check > Cash	9%	12%	7%	10%	14%	7%	8%
Card > Check = Cash	13	16	13	11	11	10	19
Card = Check > Cash	9	5	9	16	9	11	10
Card = Check = Cash	42	39	48	30	37	40	43
Card > Cash > Check	*	*	*	*	1	*	*
Card = Cash > Check	*	*	*	*	*	*	*
Check > Card > Cash	4	3	4	6	5	3	1
Check > Card = Cash	6	6	4	9	5	9	4
Check > Cash > Card	*	1	*	*	*	*	1
Check = Cash > Card	1	*	1	1	1	1	*
Cash > Check > Card	*	*	*	*	*	*	*
Cash > Check = Card	*	*	*	*	*	*	*
Cash > Card > Check	*	*	*	*	*	*	*
Missing data; inconsistent ranking	16	18	14	17	17	19	14
Total	100%	100%	100%	100%	100%	100%	100%
Cases	483	165	225	93	161	129	148

TABLE 3.10

COST RANKING OF METHODS OF PAYMENT[a]

(Among retailers that accept cash, checks, and third-party cards)

		Annual Sales Volume (thousands)			Average Transaction Size		
Overall Costs	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Most Expensive Method							
Cash	1%	1%	*	1%	*	*	1%
Check	23	17	23	31	27	25	19
3rd-Party Card	69	73	66	63	73	66	69
Equal Costs	7	6	8	9	4	7	11
Least Expensive Method							
Cash	79%	82%	78%	74%	87%	78%	73%
Check	26	33	28	9	19	26	24
3rd-Party Card	2	4	1	*	1	1	3
Point of Purchase Costs							
Most Expensive Method							
Cash	*	*	*	1%	*	1%	1%
Check	22	16	17	40	25	26	14
3rd-Party Card	64	60	65	70	71	64	58
Equal Costs	15	18	14	11	10	12	22
Least Expensive Method							
Cash	71%	66%	72%	80%	80%	74%	62%
Check	33	37	34	22	29	34	36
3rd-Party Card	3	2	3	4	1	4	4
Loss and Security Costs							
Most Expensive Method							
Cash	2%	1%	1%	4%	1%	1%	4%
Check	39	31	37	55	45	42	34
3rd-Party Card	24	24	21	30	27	23	24
Equal Costs	24	27	26	13	18	21	28
Least Expensive Method							
Cash	51%	45%	50%	66%	61%	48%	49%
Check	7	8	8	5	6	8	9
3rd-Party Card	19	19	20	20	23	15	22

TABLE 3.10 (continued)

Financial and Deposit Costs (excludes check verification and credit card fees)	All	Annual Sales Volume (thousands) Less than $500	$500-$5,000	More than $5,000	Average Transaction Size Less than $20	$20-50	More than $50
Most Expensive Method							
Cash	*	*	*	1%	1%	1%	*
Check	19	14	17	32	20	25	16
3rd-Party Card	32	33	29	37	35	26	38
Equal Costs	42	39	48	30	37	40	43
Least Expensive Method							
Cash	41%	42%	36%	52%	44%	40%	43%
Check	14	16	13	11	12	10	19
3rd-Party Card	6	6	4	10	5	11	5

---

*Less than 0.5 percent.

[a] If two payment methods were tied for most (or least) expensive, both were coded most (least) expensive.

TABLE 3.11

REASONS FOR ACCEPTING THIRD-PARTY CREDIT CARDS DESPITE FEES

(Retailers that accept third-party credit cards)

		Annual Sales Volume (thousands)			Average Transaction Size		
Reasons	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Customer convenience	44%	41%	50%	37%	43%	42%	47%
Encourages sales	40	43	30	54	39	44	36
Safer	7	4	9	5	8	5	7
Cash flow	3	6	4	*	3	3	6
Convenient for retailer	2	1	4	*	1	3	2
No advantage to accepting credit cards	2	3	1	*	2	1	1
Other	2	1	2	3	3	1	1
NA	1	1	*	1	1	1	*
Total	100%	100%	100%	100%	100%	100%	100%
Cases	559	186	246	127	186	162	161

---

*Less than 0.5 percent.

The question was: "Considering the fees merchants pay on credit card sales, what is the main reason it is worthwhile for your business to accept credit cards?"

TABLE 3.12

REASONS FOR NOT ACCEPTING THIRD-PARTY CREDIT CARDS

Reasons	Third-Party Credit Cards
Fees and charges	54%
No demand	35
Paperwork, inconvenience	16
Slow cash flow	7
Risk of loss or fraud	5
Other	7
DK, NA	5
Total	[a]
Cases	141
Ever Accept:	
Yes	27%
Years ago accepted:	
1	4
2-3	9
4 or more	14
(Median)	(5.6)
No	73
Total	100%
Cases	141

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[*] Less than 0.5 percent.

[a] May add to more than 100% due to multiple mentions.

The questions were: "What are the main reasons your business does not generally accept personal checks?" "Are there any other reasons?" "Has your business ever accepted personal checks for payment?" "How many years ago did your business stop accepting personal checks?" "What are the main reasons your business does not accept credit cards?" "Are there any other reasons?" "Has your business ever accepted credit cards for payment?" "How many years ago did your business stop accepting credit cards?"

TABLE 4.1

PAYMENT METHODS PREFERRED BY RETAILER

		Annual Sales Volume (thousands)			Average Transaction Size		
Preferred Method for Additional Sale	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Cash	86%	88%	87%	83%	93%	87%	77%
Personal check	7	6	8	4	2	4	16
Store credit card	2	1	1	6	2	4	*
3rd-party credit card	1	2	*	3	1	2	3
DK, NA	4	3	4	4	2	3	4
Total	100%	100%	100%	100%	100%	100%	100%
Cases	703	263	299	141	234	194	205
Preferred Method for Sales Increase of 25 Percent							
Cash	83%	85%	84%	79%	88%	87%	79%
Personal check	7	7	8	7	4	2	12
Store credit card	3	1	1	7	3	5	1
3rd-party credit card	2	1	1	3	1	2	2
DK, NA	5	6	6	4	4	4	6
Total	100%	100%	100%	100%	100%	100%	100%
Cases	703	263	299	141	234	194	205

The questions were: "If a customer is making a purchase, and only the method of payment has to be decided, would you prefer to take cash, a personal check, a store credit card, or another credit card in payment?" "If your annual unit sales increased by 25 percent, would you prefer to have the additional sales by cash, personal check, store credit card, or another credit card?"

TABLE 4.2

REASONS FOR PAYMENT METHOD PREFERENCE

(Among retailers who accepted more than one method and stated a preference)

	Payment Method Preferred	
Reason Payment Method Preferred for Additional Sale	Cash	Check
Low risk	74%	79%
Avoid deposit fees and credit card fees	31	23
Cash flow	24	5
Lower costs	16	34
Customer preference	*	2
Other	13	11
Total	[a]	[a]
Cases	607	47
Reason Payment Method Preferred for 25 Percent Sales Increase		
Low risk	46%	55%
Avoid deposit fees and credit card fees	19	29
Cash flow	33	*
Lower costs	24	36
Customer preference	1	2
Other	17	17
Total	[a]	[a]
Cases	575	52

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[a] May add to more than 100% due to multiple mentions.

TABLE 4.3

RETAILER EXPERIENCE WITH CASH DISCOUNTS

(Among retailers that accept third-party credit cards)

Retailer Experience	All	Annual Sales Volume (thousands)			Average Transaction Size		
		Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Now offers discount for cash	10%	7%	14%	8%	13%	8%	9%
Did offer discount for cash in past	4	5	3	3	4	3	4
Considered in past, but did not offer discount for cash	18	15	13	21	18	15	17
Never offered or considered discount for cash payment	78	73	69	68	65	74	70
Don't know, not ascertained	*	*	1	*	*	*	*
Total	100%	100%	100%	100%	100%	100%	100%
Cases	571	189	250	132	192	167	162
Median Discount Offered by Retailer	4.0	5.0	4.0	3.8	4.0	4.0	4.0
Median Percent of Customers that Receive Discount for Cash Payment	50%	50%	55%	55%	60%	60%	25%
Competitors Offer Cash Discount?							
Yes	10%	6%	12%	12%	12%	7%	10%
Some offer	8	5	8	10	8	10	6
No	67	70	62	72	71	72	63
DK, NA	15	19	18	5	9	11	21
Total	100%	100%	100%	100%	100%	100%	100%
Cases	713	266	302	145	240	195	205
Median Discount Offered by Competitors	5.0	10.0	5.0	4.0	4.0	4.0	5.0

The questions were: "Does your business now offer a discount to all customers who pay in cash intead of using a credit card?" and "Has your business ever had a policy of charging all customers a lower price for paying in cash instead of using a credit card?" and "Has your business ever considered offering a lower price to all customers who pay in cash instead of using a credit card?" "Do your main competitors offer a discount when customers pay in cash instead of using a credit card?" "What percentage discount is offered by your main competitors?" "What percentage discount do you offer for payment in cash?" and "What percentage of all your customers (receive/ask for) a discount for paying with cash instead of a credit card?"

TABLE 4.4

POLICIES GOVERNING CASH DISCOUNTS, SIZE OF DISCOUNT, AND THE NUMBER OF CUSTOMERS THAT RECEIVE DISCOUNTS

		Annual Sales Volume (thousands)			Average Transaction Size		
Now Offers Discount for Cash Payments	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Yes	10%	7%	14%	8%	13%	8%	9%
Discount for:							
Cash only	3	4	4	3	4	3	3
Cash and check	7	3	10	5	9	5	6
Discount Policy:							
Permanent	9	7	12	7	13	6	7
Temporary	1	*	2	1	*	2	2
Discount Availability:							
Automatic	8	5	11	8	12	7	6
Customer must ask	2	2	3	*	1	1	3
Discount Determined by:							
Mark-up on item	1	*	1	2	2	*	2
Cost of card sales	4	3	4	4	4	4	4
Competitors discount	1	1	1	2	2	*	*
Suggested by oil company	1	1	2	*	3	1	*
Effect of Cash Discounts on Overall Costs:							
Higher	2	1	3	*	2	2	1
Same	6	4	10	3	9	4	6
Lower	2	2	1	5	2	2	2
(Median % change)	(0.0)	(0.0)	(0.0)	(-1.4)	(0.0)	(0.0)	(0.
Effect of Cash Discounts on Overall Sales Volume:							
Higher	4	4	5	6	5	3	5
Same	5	3	9	2	8	4	4
Lower	1	*	*	*	*	1	*
(Median % change)	(0.0)	(0.0)	(0.0)	(5.0)	(0.0)	(0.0)	(0.
No	90	93	86	92	87	92	91
Don't know, not ascertained	*	*	*	*	*	*	*
Total	100%	100%	100%	100%	100%	100%	100%
Cases	571	189	250	132	192	167	162

The questions were: "Does your business now offer a discount to all customers who pay in cash instead of using a credit card?" "Is that discount also offered for payment with personal checks?" and "Is this policy of discounts for cash payment permanent, or is it a temporary promotional-type of policy?" and "Is the discount automatically given to anyone who pays in cash (or by check) or does the customer have to ask for a discount?" and "How was that size discount determined?" and "As a result of offering discounts for cash, is your overall sales volume higher, lower, or about the same?" and "As a result of offering discounts for cash, are your overall costs for accepting payments from consumers higher, lower, or about the same?"

CHART 4.5

REASONS FOR NOT OFFERING DISCOUNTS FOR CASH PAYMENTS

		Annual Sales Volume (thousands)			Average Transaction Size		
Offer Discount for Cash Payment in Past	*All*	Less than *$500*	*$500-$5,000*	More than *$5,000*	Less than *$20*	*$20-50*	More than *$50*
Yes	4%	5%	4%	3%	4%	3%	4%
Reason for not offering now:[1]							
customer dislike	*	1	*	1	1	1	*
discourages credit use	*	*	*	*	*	*	*
don't think it would work--no need	1	1	1	1	1	1	*
decreased profits	2	3	1	1	1	1	2
decreased sales	*	*	*	*	*	*	*
increased costs	1	*	2	*	1	1	1
illegal	*	*	*	1	1	*	*
other reasons	*	1	*	*	1	*	*
No	96	95	95	97	96	97	95
Don't know, not ascertained	*	*	1	*	*	*	1
Total	100%	100%	100%	100%	100%	100%	100%
Cases	510	173	215	122	167	152	147
Considered Offering Discount for Cash Payment in the Past							
Yes	18%	17%	16%	24%	22%	16%	19%
Reason for not offering in past:[1]							
customer dislike	3	2	3	3	4	2	4
didn't think it would work--no need	4	5	3	5	5	3	6
decreased profits	3	3	2	5	3	4	4
decreased sales	2	1	2	2	2	1	2
increased costs	5	6	2	9	8	4	5
illegal	1	1	*	3	1	1	1
other reasons	1	*	1	2	2	1	1
No	81	83	83	76	78	84	80
Don't know, not ascertained	1	*	1	*	*	*	1
Total	100%	100%	100%	100%	100%	100%	100%
Cases	490	165	207	118	192	167	162
Does not Offer Discount							
Median size of discount that would leave profits unchanged	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

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[1] May add to more than total due to multiple mentions.

The questions were: "Has your business ever had a policy of charging all customers a lower price for paying in cash instead of using a credit card?" and "Why did your business decide to stop offering a discount for paying in cash?"

"Has your business ever considered offering a lower price to all customers who pay in cash instead of using a credit card?" and "Why did your business decide not to do so?"

TABLE 4.6

TYPES OF RETAIL ESTABLISHMENTS THAT OFFER CASH DISCOUNTS

	Offer Discount for Cash Payment	
	Yes	No
Building materials & garden supplies [5211,5231,5251,5261]	14%	15%
General merchandise stores [5311,5331,5399]	*	10
Auto & home supply stores [5531]	*	5
Gasoline service stations [5541]	39	12
Apparel & accessory stores [5611,5621,5631,5641,5651, 5661,5699]	4	14
Furniture & home furnishings stores [5712,5713,5714, 5719,5722,5732,5733]	27	18
Drug stores & proprietary stores [5912]	3	7
Miscellaneous shopping goods stores [5941,5942,5943,5944, 5945,5946,5947,5949]	9	14
Mail order houses [5961]	*	1
Fuel oil dealers [5983]	2	1
Liquified petroelum gas dealers [5984]	2	1
Florists [5992]	*	2
Total	100%	100%
Cases	61	510

TABLE 4.7

CASH DISCOUNT POLICIES AMONG RETAILERS AND THEIR COMPETITORS

Competitors Offer Cash Discounts?	All	Discount Offered by Retailer Now Offers	Does Not Offer
Yes	10%	45%	5%
Some offer	8	23	5
No	67	14	76
DK; NA	15	18	14
Total	100%	100%	100%
Cases	571	61	510

TABLE 5.1

OPINIONS OF RETAILERS TOWARD DISCOUNTS FOR CASH PURCHASES

		Annual Sales Volume (thousands)			Average Transaction Size		
Discount for Cash Good or Bad Idea	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Good Idea[1]	39%	40%	41%	35%	36%	35%	49%
Customers prefer it	9	7	11	10	9	7	13
Discourages credit use	4	5	5	3	5	6	2
Customer should pay cost	5	4	5	6	6	3	6
Increased profits	6	5	7	4	3	6	9
Increased sales	8	9	7	7	7	9	8
Decreased costs	15	15	17	13	13	12	23
Other advantages	2	3	2	1	1	1	4
Bad Idea[1]	57%	55%	57%	61%	63%	61%	48%
Customers don't like it	21	20	17	21	19	21	21
Discourage credit use	*	*	*	1	*	*	1
Store should pay cost	4	3	4	4	3	3	4
Decreased profits	15	14	14	18	17	17	11
Decreased sales	7	7	8	7	10	6	6
Increased costs	13	13	13	16	14	18	8
Illegal	*	1	*	*	*	*	*
Other disadvantages	6	4	5	10	5	10	4
Don't know, not ascertained	4	5	2	4	1	4	3
Total	100%	100%	100%	100%	100%	100%	100%
Cases	713	266	302	145	240	195	205

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[1] May add to more than total due to multiple responses.

The questions were: "In general, do you think it is a good idea or a bad idea for a retailer to offer a discount to customers who pay in cash instead of with a credit card?" and "Why do you think it is a (good/bad) idea?"

TABLE 5.2

OPINIONS OF RETAILERS TOWARD SURCHARGES FOR CREDIT CARD PURCHASES

		Annual Sales Volume (thousands)			Average Transaction Size		
Credit Card Surcharge Good or Bad Idea	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Good Idea[1]	27%	29%	27%	26%	34%	25%	22%
Customers prefer it	2	*	2	3	3	1	1
Discourages credit use	3	4	2	2	2	2	3
Customer should pay cost	18	19	18	18	26	18	11
Increased profits	5	6	6	1	6	4	6
Increased sales	*	*	*	1	*	*	1
Decreased costs	3	3	3	4	3	2	3
Other advantages	1	*	*	3	*	2	*
Bad Idea[1]	71%	70%	72%	70%	64%	74%	76%
Customers don't like it	39	35	40	44	36	37	46
Discourages credit use	2	3	2	1	3	2	1
Store should pay cost	11	14	12	11	11	11	13
Decreased profits	3	3	3	6	3	5	3
Decreased sales	23	21	22	28	19	29	23
Increased costs	5	4	5	6	4	7	5
Illegal	1	*	1	3	1	1	2
Other disadvantages	4	4	4	3	6	2	4
Don't know, not ascertained	3	1	1	4	2	1	2
Total	100%	100%	100%	100%	100%	100%	100%
Cases	713	266	302	145	240	195	205

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[1] May add to more than total due to multiple responses.

The questions were: "Instead of a discount for cash, do you think it would be a good idea or a bad idea if retailers added an extra fee or surcharge when their customers used credit cards to make a purchase?" and "Why do you think it would be a (good/bad) idea?"

TABLE 5.3

RETAILER PREFERENCES FOR CASH DISCOUNTS OR CREDIT SURCHARGES

		Annual Sales Volume (thousands)			Average Transaction Size		
Prefer Discount for Cash or Surcharge for Credit	All	Less than $500	$500-$5,000	More than $5,000	Less than $20	$20-50	More than $50
Discount for Cash[1]	29%	28%	30%	28%	26%	29%	34%
customers prefer it	10	9	11	11	10	10	12
discourages credit use	2	3	1	1	2	3	1
customer should pay cost	1	1	1	1	1	1	1
increased profits	2	4	1	1	2	2	2
increased sales	6	6	6	8	4	7	9
decreased costs	9	8	5	10	7	9	13
Surcharge for Credit[1]	22%	19%	22%	25%	24%	23%	19%
customers prefer it	2	*	3	2	3	1	3
discourages credit use	2	1	2	3	2	2	1
customer should pay cost	10	9	8	19	13	11	7
increased profits	4	3	5	1	4	3	5
increased sales	1	3	*	*	*	1	1
decreased costs	6	5	6	6	6	7	5
Neither[1]	47%	52%	45%	45%	50%	45%	44%
customers don't like	15	15	16	15	17	15	15
discourages credit use	*	*	*	*	*	*	*
store should pay cost	4	3	3	6	2	5	5
decreased profits	7	7	7	8	5	10	5
decreased sales	5	5	4	5	4	6	5
increased costs	15	17	14	14	16	15	13
illegal	1	*	*	*	*	*	*
other disadvantages	4	5	6	3	6	5	4
Don't know, not ascertained	2	1	3	1	1	3	3
Total	100%	100%	100%	100%	100%	100%	100%
Cases	713	266	302	145	240	195	205

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[1] May add to more than total due to multiple responses.

The questions were: "If either a discount for cash or a surcharge for credit were allowed by law, would you prefer to use a cash discount, a credit surcharge, or neither one?" and "Why would you prefer to use (a discount for cash/a surcharge for credit/neither one?")